

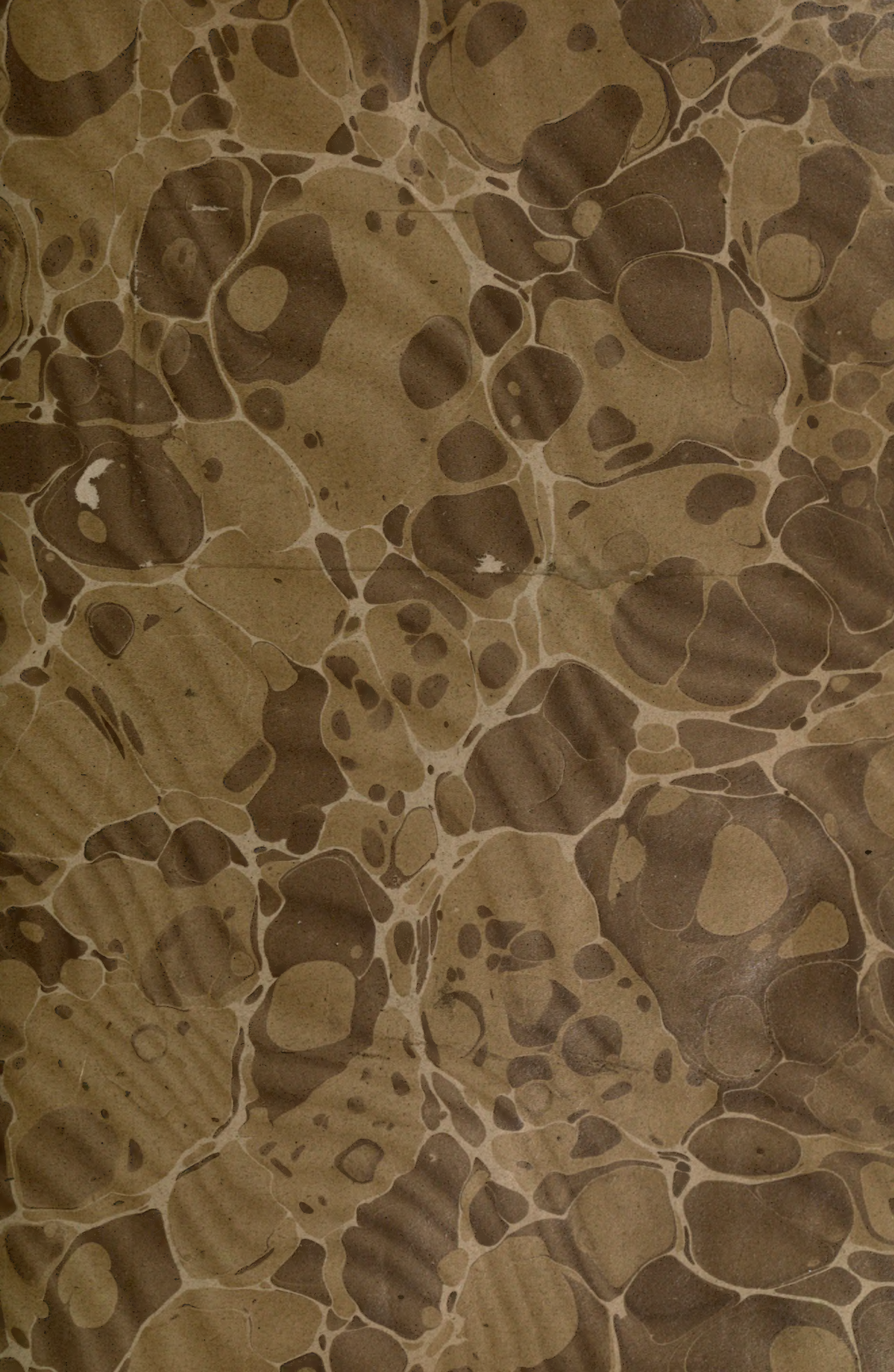
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INSURANCE

"A TEXT-BOOK"

A COMPILATION OF THE ADDRESSES DELIVERED BEFORE
THE TWENTY-NINTH SESSION OF THE NATIONAL
CONVENTION OF INSURANCE COMMISSION-
ERS, HELD AT MILWAUKEE, WIS-
CONSIN, SEPTEMBER 13-16,
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WILLIAM A. FRICKE



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A REVIEW OF LIFE INSURANCE

FROM THE DATE OF THE

FIRST NATIONAL CONVENTION OF
INSURANCE OFFICIALS.

1871-1880.

JOHN A. McCALL.

PRELIMINARY.

AT the time of the meeting of the First Convention of Insurance Officials, in May, 1871, American Life Insurance had passed through two distinctive periods, and had nearly reached the end of the third. In the first period life insurance was done almost entirely by proprietary companies, organized primarily for the transaction of fire insurance, banking and trust business. Following this came the period of the early mutuals and other profit-sharing companies, doing a life insurance business exclusively. The marked success of these organizations, between 1843 and 1862, caused a great multiplication of life companies.

Life Insurance shared the fate of other industries of the time—flourished and grew with them—as later it suffered with them. From 1862 to 1870 the number of companies reporting to the New York Department increased from eighteen to seventy-one—the latter being the highest number ever reported. During the same period the insurance in force and the gross assets increased over ten-fold. In eight years over two hundred and thirty million dollars were added to assets, and over eighteen hundred millions to risks in force.

During this period State supervision in New York became full-fledged. It was begun in a mild form under the Revised Statutes of 1828, which required all moneyed corporations thereafter created to make annual reports to the State Comptroller. This provision was continued in the first general Insurance Act of April 10, 1849, and compliance with its requirements by foreign companies was made a condition of their admission to the State. A deposit with the State for the protection of policy-holders was first required by the Act of April 8, 1851, and under this Act the Comptroller was given authority to make official examinations of companies. This Act also made the possession of a re-insurance fund a necessity, and required a company to be dissolved if its assets were not sufficient to re-insure its outstanding risks. The gen-

eral Life and Health Insurance Law of 1853 required the companies to report a classified statement of all policies in force, together with the data necessary for an official valuation of policy liabilities. The Act of April 15, 1859, creating the Insurance Department, made no new requirement of the companies, but transferred to the Superintendent the authority over them formerly exercised by the Comptroller. A standard of solvency was first adopted by law in 1866, the English Life Table No. 3 for Males, with interest at five per cent., being chosen. In 1868 the standard was changed to the American Experience Table, with interest at four and one-half per cent. The first official valuation of the policy liabilities of all companies doing business in the State was made as of December 31, 1869. The second annual valuation, made December 31, 1870, showed seventy-one solvent companies with \$2,000,000,000 of insurance, \$269,000,000 in assets and \$48,000,000 in surplus. At this time six other States had adopted the New York standard, while four States stood with Massachusetts for the Actuaries' Table, with four per cent. interest ; Iowa had anticipated the financial discussions of our day by adopting a double standard. Such was the condition of the companies and such the standards of solvency at the assembling of the First Convention of Insurance Officials in May, 1871.

THE CONVENTION.

What were the burning questions of the time may, perhaps, be best judged by noting those which most occupied the attention of the Convention. These were (1) a uniform blank for the use of companies in making their annual reports, and the acceptance by each Department, within the limits of existing law, of the certificates of other Departments, as to valuations and assets of home companies ; (2) uniform methods of valuation, including table of mortality and rate of interest ; (3) uniform insurance laws, including uniform taxation of life companies ; (4) the best method of dealing with insolvent companies.

The first of these subjects being within the purview of the Convention, a uniform blank was adopted and recommended to the various Departments. This form was so modified in 1875 that reports should present a perfect balance-sheet, and, with slight amendments, it has been continued until the present time. Upon other subjects named the Convention could only make recommendations. The report of the Committee on mortality table and interest rate was presented at the October session and fills over 90 printed pages, while the papers, addresses and letters on the subject occupy 150 pages more. All this was in addition to the ex-

tended discussions had during the sittings of the Convention. The American Table of Mortality, with four and one-half per cent. interest, was finally recommended by a vote of 23 to 3.* Judging from the attention it received, this was considered the most important question before the Convention. The companies, as a whole, expressed no preference for any particular table of mortality or rate of interest; but, in response to a request of the Convention to lay before it such matters as they deemed of importance to be considered, they urged uniformity in the forms of annual reports, the adoption of the same basis and system in valuations, the interchange of certificates of valuation and assets, the deposit of securities in one State only, the appointment of one agent or attorney only in each State for service of process, and uniformity in taxation.

A draft of a reciprocal insurance law was reported, discussed and finally recommended to the several States for adoption. A resolution to the effect that it was impolitic to tax life insurance premiums was lost by a vote of 13 to 8, and a resolution to the effect that the tax on premiums

* Mr. William E. Harvey, of Illinois, announced that he was under instructions to vote for the Actuaries' Table unless a unanimous vote could be obtained for some other standard. Report second session, pp. 216, 220.

should not exceed one and one-half per cent. was adopted by a vote of 13 to 10.* The Secretary of the Convention compiled a table showing the taxes imposed on Life Insurance by the various States and Territories in 1870, and, in order to ascertain whether the former times were better or worse in this respect than the present, I have had made up a table showing what taxes the New-York Life Insurance Company paid in 1897 in each State and Territory of the United States, and what it would have paid in each had the laws been the same as they were in 1870.

The table shows an increase in taxation by States having tax laws in 1871, of about three-fourths of one per cent. for the same amount of business. In twenty-two States taxes are higher than in 1871, and in seventeen States they are lower. The most striking feature of the table is its inequalities. In twenty-five States and Territories, where the Company had \$317,000,000 insurance in force in 1897, it paid \$23,000 in taxes; in twenty-four other States and Territories, where it had \$313,000,000 insurance in force, it paid \$207,000 in taxes. The taxation of Life Insurance cannot be said to be founded on any recognized principles of equity or of political economy when in one-half of the Union it is taxed nine times as heavily as it is in the other half.

* Report second session, pp. 183-4.

**COMPARATIVE RESULTS OF TAX LAWS IN 1871 AND 1897 ON THE
BUSINESS OF THE NEW-YORK LIFE INSURANCE COMPANY.**

STATE OR TERRITORY.	Total amount paid in 1897, under laws then in force.	Amount which would have been paid in 1897 on basis of laws current in 1871.	Insurance in force Dec. 31, 1897.
Alabama	\$2,840.58	\$4,776.96	\$6,951,000
Arizona	991.23	.....	2,097,000
Arkansas	1,306.29	2,402.69	3,183,000
California	729.85	6,454.66	20,015,000
Colorado	5,231.89	5,088.64	7,727,000
Connecticut	306.00	5,920.06	8,471,000
Delaware	402.48	745.64	778,000
Dist. of Columbia.	1,176.69	1,155.94	3,545,000
Florida	4,023.56	490.00	5,800,000
Georgia	7,370.61	6,281.61	14,609,000
Idaho	97.00	.....	3,002,000
Illinois	1,402.74	2,900.00	51,798,000
Indiana	10,588.58	262.50	14,538,000
Iowa	12,806.58	711.00	18,188,000
Kansas	256.67	4,598.52	7,099,000
Kentucky	14,210.20	16,289.33	18,770,000
Louisiana	3,715.10	7,130.96	16,508,000
Maine	289.44	103.00	3,957,000
Maryland	5,766.05	3,913.85	7,463,000
Massachusetts	16,593.84	8,300.72	26,563,000
Michigan	8,539.15	12,795.27	12,392,000
Minnesota	5,501.96	.....	10,238,000
Mississippi	1,552.00	2,082.50	8,292,000
Missouri	17,882.46	500.00	29,215,000
Montana	2,154.75	.....	4,862,000
Nebraska	133.19	111.10	7,272,000
Nevada	100.00	1,137.68	1,103,000
New Hampshire	607.68	487.68	1,888,000
New Jersey	335.00	7,867.70	15,754,000
New Mexico	226.00	.....	3,064,000
New York .....	.....	8,675.00	123,413,000
North Carolina	3,682.58	1,800.29	5,489,000
North Dakota	1,310.06	.....	1,529,000
Ohio	23,920.81	19,519.84	28,367,000
Oklahoma	142.06	.....	1,136,000
Oregon	883.30	145.00	3,601,000
Pennsylvania	31,746.29	47,429.43	45,506,000
Rhode Island	2,752.06	2,861.06	4,171,000
South Carolina	5,092.04	205.00	6,537,000
South Dakota	1,873.62	.....	2,833,000
Tennessee	6,132.44	4,438.86	7,815,000
Texas	10,628.62	500.00	25,828,000
Utah	1,565.63	.....	3,456,000
Vermont	3,810.52	2.00	4,800,000
Virginia	3,839.37	7,679.76	9,075,000
Washington	1,813.31	.....	4,545,000
West Virginia	2,057.41	1,838.71	3,234,000
Wisconsin	451.00	408.00	12,204,000
Wyoming	934.40	364.95	1,425,000
	\$229,773.09	\$198,376.00	\$630,111,000

The Committee on Winding Up Insolvent Companies reported a plan, which was laid upon the table until the next year. Speaking of this action Mr. Harvey, of Missouri, who was a member of the Committee, said in a paper read before the Convention of 1890 :

“There was a unanimous conviction that the prospect at that time, under the existing inflation of values, had a dangerous aspect, but where or how soon the wrecks were to begin no one dared predict; and yet no member, nor the committee to which was given the matter of devising the skeleton of a uniform insurance law for all the States, seemed to think it worth while to suggest immediate legislation, under which, if the storm did burst, some of the craft might be saved. In the law which was proposed at the fall session, a section looking to the possible recovery of an impaired company was incorporated; but subsequent events have shown that its application would have been a remedy to kill, not cure.”*

The method incorporated in the proposed law differed but little from the method pursued with such disastrous results under the laws of New York in the years immediately following. The method proposed by the Committee had the merit of keeping an insolvent company together, apply-

* Official report, pp 18, 19.

ing the assets on hand to the purchase of paid-up insurance, and devoting all future premiums received to the purchase of new insurance at a rate adjusted to attained age. There was really no question before the Convention of such pressing importance as this, and the long debates over tables of mortality and rates of interest might well have been spared, if a just and workable measure for saving insolvent companies from the waste of receiverships could have been devised and urged upon the attention of legislators. The "unanimous conviction" of danger spoken of by Mr. Harvey, was well founded. The official valuations of December 31st, preceding, showed an impairment of the capital stock of twenty-nine companies by the New York standard, and of thirty-six companies by the Massachusetts rule. Superintendent Miller, of New York, who called the Convention and presided over its deliberations, had made numerous examinations of life companies in 1870, and as a result, two New York companies and two British companies had been obliged to cease doing business. The fate that befell policy-holders in these four organizations was typical of that which was in store for those of thirty-two of the thirty-six companies already referred to, as showing an impairment of capital under the Massachusetts standard—one was wound up by a receiver who

paid about 25 cents on the dollar, while the other three were re-insured in companies that either failed, or were, in turn, re-insured in other companies that failed.

Before considering the events of the period immediately following 1871, it may be well to glance at some features of the policy contract at this time. All policies contained numerous restrictions upon residence, travel, occupation, habits of life and manner of death, under which a policy might be cancelled or become void. There was no incontestable clause. Ordinary Life policies issued prior to about 1868, and all policies issued prior to 1860, contained no non-forfeiture conditions. Dividends in most companies were declared annually, and were generally available in the reduction of annual premiums, or were added to the policies in the form of paid-up insurance. In 1868 the Equitable had begun the issue of a deferred dividend policy—which was forfeitable for non-payment of premium during its first dividend period, such period being fixed by the time required for the annual premiums, compounded at ten per cent. per annum, to amount to the face of the policy. In 1870 the Mutual began the issue of policies which were forfeitable for non-payment of premium during the first dividend period of 10, 15 or 20 years. In 1871 the New-York Life began the issue of a 10-year

dividend policy which was forfeitable for non-payment of premium during the first dividend period. These policies did not, however, contain the options in settlement—including cash surrender value—afterward incorporated in deferred dividend policies by these and other companies.

A PERIOD OF DISASTER.

The nine years immediately following the First Convention must be accounted the most trying period in the history of American Life Insurance. The number of companies which ceased doing business in New York was forty-six. Only four re-insured in companies that remained solvent; only ten others paid their liabilities in full. Receivers' reports are incomplete, but a careful examination of such as are accessible show the total loss to policy-holders by failures among American life companies to be about thirty-five million dollars, nearly all of which occurred during this period.

LOSSES IN NEW YORK COMPANIES.

NAME OF COMPANY.	Cash Liabilities.	Cash Dividends.	Loss to Policy-holders.
1. Continental	\$4,821,048	\$1,344,066	\$3,476,982
2. Globe	3,268,821	1,921,002	1,347,819
3. Guardian	1,727,282	376,089	1,351,193
4. Knickerbocker	3,065,708	685,344	2,380,364
5. North America	2,923,829	987,912	1,935,917
6. Security Life and Annuity	2,474,968	259,764	2,215,204
7. Universal	2,812,599	200,000	2,612,599
Twelve small companies.	3,835,642	1,815,804	2,019,838
TOTALS	\$24,929,897	\$7,589,981	\$17,339,916

1. Includes American Tontine, Farmers and Mechanics and Empire Mutual.
2. Includes Merchants' Life. Dividends include \$100,000 of net shortage of \$129,559 in Expenditures from incomplete receivers' reports.
3. Includes Amicable, Widows and Orphans Benefit and Mutual Protection (changed to Reserve Mutual), and New York State Life.
4. Cash Dividends include \$75,000 of \$109,873 on hand December 31, 1886, and not reported on.
5. Includes Standard and Government Security.
7. Liabilities include \$1,500,000 for loss in scaling policies in 1878. Receivers' reports incomplete; difference between receipts and disbursements, \$222,763; dividends estimated.

LOSSES IN OTHER-STATE COMPANIES.

NAME OF COMPANY.	Cash Liabilities.	Cash Dividends.	Loss to Policy-holders.
1. New Jersey Mutual, N. J.	\$1,006,185	\$41,024	\$965,161
2. Piedm't & Arlington, Va.	822,060	52,384	769,676
3. Republic, Ill.	1,100,500	346,112	754,388
4. Charter Oak, Conn.	8,491,387	553,472	7,937,915
5. Continental, Conn.	1,752,050	297,848	1,454,202
6. Columbia, Mo.	2,824,169	249,250	2,574,919
7. Life Association, Mo.	1,935,846	417,279	1,518,567
8. Am. Nat'l L. & T., Conn.	668,758	66,876	601,882
9. American, Pa.	1,302,533	454,195	848,338
Seven small companies..	1,190,012	533,008	657,004
TOTALS	\$21,093,500	\$3,011,448	\$18,082,052

3. Includes Hahnemann, Ohio, and Economical R. I.
4. Liabilities include a loss of \$5,446,749 in scaling policies in 1877.
6. Includes St. Louis Mutual, Atlas and De Soto.
7. Includes Empire State Mutual, N. Y.

The statutes applicable to winding up insolvent companies were entirely inadequate, and much expensive litigation was necessary to determine what the law really was. Meanwhile the waste and extravagance of receiverships went on until they became almost as great a scandal as the mismanagement of companies that had brought them into being. The situation was more acute in New York State than elsewhere because, of the forty-six companies which ceased doing new business, twenty-seven had their domicile in that State. Governor Robinson called attention to the subject in his annual message of 1878, and the delegates to this Convention at its meetings in 1877 and 1878 adopted resolutions deploring the evils of receiverships, and pledging themselves to make every effort to save companies from receivers' hands. The Legislature did but little to protect the interests of policyholders, and the ill-timed denunciation of Life Insurance indulged in by some of its members often failed to discriminate between well, and ill-managed companies, and so added to public distrust. The insurance legislation of this period in New York, which was intended to be remedial, was: A law (in 1873) limiting the Superintendent's charges for examining companies to actual expenses, and providing a specific method of payment; a law (in 1876) requiring the companies to give thirty days'

notice of premiums falling due before declaring policies lapsed ; a law (in 1877) forbidding life companies to re-insure risks without the written consent of the insured, and authorizing receivers to re-insure the whole or any part of the risks of insolvent companies ; a law (in 1879) regulating and expediting the winding up of insolvent companies ; and a non-forfeiture law (in the same year) which was somewhat less liberal in its provisions than the terms which were freely granted under the policies of most companies. The value of these measures of relief will be apparent when I say that a failure involving a very heavy loss to policyholders occurred in 1883, several years after the last law mentioned was enacted.

Other important legislation of the period was the reciprocal valuation law (1873) ; the law (1873) allowing a life company to purchase its own policies issued in favor of a wife with reversion to children ; the law (1879) allowing such policies to be assigned ; and the Massachusetts law (1880) requiring the companies to pay a cash surrender value if requested at the end of any year after the first.

The loss, to solvent companies, of business as well as of *prestige*, during this period, was very great. In 1870 the income of the companies doing business in New York was \$105,000,000, in 1879 it

was \$76,000,000 ; in 1870 the new business was \$588,000,000, in 1879 it was \$168,000,000 ; in 1870 the risks in force were \$2,024,000,000, in 1879 they were \$1,440,000,000. Notwithstanding the removal of so many competitors from the field, the business of the thirty-one solvent companies was less in 1879 than that of the same companies in 1870 ; their income was two millions less, their risks in force were seventy millions less, and their new business had fallen off over one-half. The total new paid-for business of all the companies in 1879 was nearly thirty-eight million dollars less than has since been written in one year by a single company.

Yet all these losses and failures are but a part—and a small part at that—of the loss and failure which overtook the business interests of the country generally during the same period. The financial panic of 1873 marked the culmination of the over-trading, over-building and over-capitalization which resulted naturally from the inflation of the currency during the Civil War. Life insurance had grown more rapidly than any other business of equal magnitude ; its failures and losses were proportionately much less. At the end of 1873 the entire capital account of the railroads of the country was about thirty-eight hundred million dollars, and during the next six years roads repre

senting nearly one thousand millions were sold under foreclosure or went into receivers' hands. The assets held by failing life companies amounted to about one-ninth of the total; the assets of defaulting railroad companies represented over one-quarter of the total. About one-fourth of all the savings banks in New York went out of existence during the six years following 1871, with losses amounting to about four and one-half million dollars. The Superintendent of the Banking Department, commenting on these failures, said, if the funds of all savings banks in the State had been invested in United States bonds in 1871, the shrinkage would have been seven million dollars; if in the best railroad securities, it would have been over thirty millions; if in the best bank stocks, thirty-five millions; and if in real estate, from forty to fifty millions.

It has been the custom of writers who would exalt Life Insurance to give scant space to the discussion of the failures and losses of this period; but to my mind there is no period in Life Insurance history that deserves more careful study, and none that contains more valuable lessons to the life insurance manager. Why did these companies fail? A true and complete answer to that question would put every officer and every trustee of a life company on his guard against like causes and a like

catastrophe. As we have already seen, these failures were contemporaneous with many other failures in the business world, and something must unquestionably be allowed for the great shrinkage in values, as measured by the currency of the country, between 1864 and 1879. But the companies that survived and increased in strength were obliged to meet the same conditions,—how did they escape? A study of the reports of this period shows but very little charged off to profit and loss by the failing companies; but a study of their condition at the time of failure shows a great gulf between actual and assumed values of assets. In many of these companies gross frauds had been practiced for years, and a thorough examination would have exposed them. In others, loans had been made on insufficient security and with evident profit to favored individuals. In some cases loans upon which neither interest nor taxes had been paid for years were carried on the books at their full face value. Such assets, under the inexorable rules of a receivership, melted away like snow beneath a summer sun. Six of the largest failing companies having their domiciles in New York State made the following showing: Real estate owned and bonds and mortgages on real estate, at the companies' last reports, \$14,160,057; amount realized from same by receivers, \$4,449,984,—or

about thirty-one and one-half per cent. All other assets, by companies' last reports, \$4,538,196; amount realized by receivers, \$2,232,424,—a little over forty-nine per cent. During the continuance of these receiverships there was received, in addition to the foregoing, as interest and rents on all property, \$676,030, and \$908,302 was paid out as real estate expenses. Other expenses of these receiverships were \$1,678,172, or a little over twenty-two per cent. of total receipts.

But what brought these companies so near the "ragged edge" of insolvency, according to their own statements and valuations, that their true condition could no longer be concealed? For an answer to this question I have tabulated the most important items of income and expenditure of the largest of these companies, as they appear in the New York reports, from 1864 until the companies ceased doing business in the State. The examination covers seven New York companies with an average of over twelve years of business, and seven other-state companies with an average of over six years of business. These fourteen companies absorbed by re-insurance previous to their demise fourteen other companies, and together they represent the bulk of the failures, as regards amount of business and losses incurred, that have taken place among American life insurance companies. As a

standard of comparison I have taken the record for ten years, 1865 to 1874, both inclusive, of the twenty-six companies which were in existence during the period, 1864-1879, and which are still solvent and active. The following is a summary of the results:

(1) The *Interest Rate* of the failing companies was nearly one per cent. (.86) less than that of the solvent companies; (2) *Expenses of Management* in the failing companies were nearly seven per cent. more of premium receipts, or about four and one-half dollars more per thousand of insurance in force, than in the solvent companies; (3) *Death-Claims Paid* were nearly three per cent. more of premium receipts, or nearly three dollars per thousand of insurance, higher in the failing companies than in the solvent companies. The higher rate of interest earned by the solvent companies would have given the failing companies nearly four million dollars more in interest receipts; the lower rate of expenses of management of the solvent companies would have saved the failing companies between twelve and sixteen million dollars;* and the lower death-claim ratio of the solvent companies would have saved the failing companies between four and ten million dollars.*

During the period covered by this review the fail-

*According as it is calculated on premiums or insurance.

ing companies paid nearly nineteen million dollars in dividends to policy-holders, but the ratios, both to premiums and to insurance carried one year, were but little more than one-half as large as in the solvent companies. The results attained by considering the question from opposite sides corroborate each other ; for example, the additional amount needed by the failing companies to pay as large dividends as were paid by the solvent companies would have been (according as the ratio to insurance or to premiums is used) from fifteen to twenty million dollars ; while the saving to the failing companies by ratios of interest, expenses and death-claims as favorable as those of the solvent companies, would have been from twenty to twenty-nine million dollars. With the same rates of interest, expenses and death-claims as the solvent companies, the failing companies might have paid the same rate of dividends and added from five to nine millions to surplus ; the solvent companies, with almost exactly three times as much business, in the period under review, actually added over sixteen millions to surplus.

ITEMS COMPARED.	Fourteen Failing Companies.	Twenty-six Solvent Companies.
Premiums Received	\$181,311,456	\$542,433,216
Interest Received	23,115,330	107,527,706
Expenses and Taxes	42,047,901	89,365,506
Death-Claims Paid	45,684,998	122,526,057
Dividends Paid	18,877,145	116,003,445
Assets at Interest One Year .	436,145,764	1,747,045,422
Insurance Carried One Year .	3,469,945,312	11,706,789,279
Average Interest Rate	5.30 per cent.	6.16 per cent.
Expenses to Premiums	23.19 per cent.	16.47 per cent.
Expenses per \$1,000 Ins.	\$12.12	\$7.63
Death-Claims to Premiums ..	25.20 per cent.	22.59 per cent.
Death-Claims per \$1,000 Ins.	\$13.17	\$10.47
Dividends to Premiums	10.41 per cent.	21.38 per cent.
Dividends per \$1,000 Ins.	\$5.44	\$9.91
Expenses and Death-Claims to Premiums	48.39 per cent.	39.06 per cent.
Expenses and Death-Claims per \$1,000 Insurance....	\$25.29	\$18.10

It seems clear from this review that these failures resulted from bad management, in the broadest sense of the term. It was extravagant, wasteful, dishonest. It paid too much for services rendered ; it did not take proper care of the results obtained. The data upon which it proceeded were not deceptive ; no company failed because of an excessive death-rate, nor (save in a single case) because it was impossible to realize a rate of interest equal to that upon which its premiums were cast.* The assumption which failed was that the loading on the net premiums would equal expenses and losses on investments. Some of the smaller companies were

*The Universal, which assumed six per cent. interest in calculating its premiums.

indeed honestly-managed, and re-insured while solvent; their mistake was in re-insuring in badly managed companies. There were others which might have been saved by more judicious handling on the part of officers of the law; their mistake was in approaching so near the "dead-line" that officers of the law could drag them over it. In no other business is failure so disastrous as in Life Insurance; in no other is it so unnecessary; in no other is it, therefore, so inexcusable. It is of no use to lay the blame of failure upon the law that makes a net valuation the test of solvency, because this law existed before most of these companies began business. That was one of the conditions of their life, to be prepared for and conformed to, as much as any other condition. As it is the province of history to teach us how we may avoid the mistakes of our predecessors, I venture to suggest the following as some of the safeguards suggested by this study:

1. The utmost care in making investments—security to be always the paramount consideration.

2. The necessity of frequent revaluations of securities, and of their rigid adjustment to changing conditions.

3. The close study of a company's business upon the principles of the "Gain and Loss Exhibit" now required by several Insurance Departments.

4. The assumption, for purposes of practical administration, of a higher standard of reserve than that by which the company's solvency is tested under the law.

The first of these suggestions may reduce the rate of interest, but it will save the principal; the second will prevent any serious reduction of assets by insurance officials; the third will locate the fault of administration, if there be one; and the fourth will preserve a strip of neutral ground between the path the company has marked out for itself and the line to which it cannot come near with safety.

In 1879 the epidemic of failures which had set in nine years before had run its course; the patients were nearly all dead, and the business of the remaining companies began to improve. In 1879 the new insurance showed an increase from its lowest point; in 1880 insurance in force showed an increase from its lowest point; and in 1881 the total income showed an increase from its lowest point. No one but those who were familiar with the business in those troubled years can realize how hard the struggle was, nor how much effort was required to regain lost ground. We talk lugubriously sometimes of the difficulties of getting business in these latter days, because of the fierce competition—which means, practically, that the difficulties are

of our own creating—; in the years which we are reviewing, the whole outside world seemed in arms against the life insurance manager. Not until 1886 was the insurance in force of companies doing business in New York as great as in 1872; not until 1887 was the total income as large as in 1873; and not until 1888 was the new insurance as much as in 1869. It took from fourteen to nineteen years to repair the losses which life insurance suffered by reason of commercial depression and internal mismanagement.

RISE OF ASSESSMENT SOCIETIES.

Another result of these same causes was that multitudes of men who felt the need of life insurance protection, sought a substitute for it in co-operative and fraternal societies. I am aware that there is well-founded objection to calling the operations of these societies insurance, and it will be stoutly maintained by some that there is but one system of real life insurance; nevertheless there may be many systems of *post-mortem* relief, and it is hardly worth while to quarrel about the name so long as we apprehend the fact. There is no question but that many co-operative and fraternal societies operating between 1870 and 1880, in spite of their imperfect system and because of honest management, furnished better protection to their pa-

trons than the level-premium companies whose demise we have been considering—although the latter were organized upon plans that were unsailable, ran their course of wickedness under the ægis of the law, and died in the odor (a very bad odor, to be sure) of regularity. While the business of the level-premium companies that failed was but a small percentage of the whole, and there were always sound and well-managed companies in the field, yet the losses were nevertheless great and wide-spread, and it was little comfort to one who had lost the accumulations of years to be told that he should have insured in a better company. A system that furnished (or even promised) present protection at low cost, and did not profess to accumulate money for future needs, appealed very strongly to men who did not understand theories of insurance, but who were angry and sore at heart over losses under a system that professed to be perfect.

There are no official data for ascertaining the number of co-operative and fraternal societies organized in the seventies; but there are now twenty of each class doing business in New York State, which were organized prior to 1880. The first Handbook of Assessment Insurance was published in 1886 * and contained the statistics of 367

* By the Spectator Company, New York.

societies, 119 of which were organized prior to 1880. Reports were first required from such societies by the Pennsylvania Department in 1874, and by the Massachusetts and New York Departments in 1882. These societies have undertaken to supply *post-mortem* relief by levying its cost upon members in a variety of ways. There have been four plans of assessment insurance, all of which are still in use, but which may be stated in the order of their development and of their approach to the level premium plan, as follows: (1) To assess all members alike, for current cost only; (2) to assess, for current cost only, according to a table graduated for age at entrance; (3) to assess according to a table graduated for age at entrance, and lay aside an arbitrary sum or proportion of assessments for a reserve fund; (4) to charge a level premium, calculated upon assumptions which give rates approximating those of level-premium companies, lay aside a reserve fund on the same assumptions, and reserve the right to assess for any deficiency. The order in which these plans have arisen, as well as their nature and the actual workings of each, clearly demonstrate that if an organization would do what the level-premium companies guarantee to do, it must do it in their way, and that methods which require less from members, provide less for members and are likely to miss the one great end of

all insurance—namely, the certainty of indemnity when the loss occurs.

The operations of these societies have been attended with a large degree of success—if we measure success by the number of persons who have joined them and by the aggregate amount paid in *post-mortem* benefits. If, on the other hand, we regard their claim to supply real life insurance at a much lower price than that charged by the level-premium companies, then we must consider them to have totally failed of their purpose. Of course, bad management has been a fruitful source of evil here, as well as in level-premium insurance. The ease with which such societies could be organized, and their comparative freedom from official oversight until within a few years, led at one time to a speculative craze in policies upon the lives of aged and invalid persons in Pennsylvania, and fraternal endowment societies have filched from the people of many States amounts which rival the losses of the failing level-premium companies.* It must be observed also that the experience of these societies has not justified their philippics against the expense rate of the level-premium companies. The expense-rate of the level-premium companies doing business in New York State in 1897 was less

* Massachusetts Insurance Report, 1893, pages x-xvi.



than twenty-three per cent. of income, while in the co-operative societies it was over twenty-eight per cent. of income, and in the fraternalists—if we allow four dollars per year for lodge dues—the rate was over twenty per cent. of income.

The effect of the operations of these societies upon the business of level-premium companies must be largely a matter of guess work. My own view is that it has been, in the main, beneficial. They have taught people the cost of temporary protection and the value of permanent insurance. As these societies usually provide for no other than *post-mortem* benefits, it is clearly seen that to furnish such benefits from year to year costs a considerable sum, even when the member survives, hence it is usually easy for the level-premium company to show that, if the insured is willing to pay a reasonable price for such indemnity in case of death during a selected period, the company will return to him, if he survives the period, all his overpayments, with interest. The men who join these societies may be divided into two classes—first, men who would not or could not, for the time being, take level-premium insurance; and second, men who join the society for term insurance and for social purposes. There is a constant influx of members from the societies to the companies, while the number of those going in the opposite direction

is, I apprehend, very small indeed. There are now seventy-eight co-operatives and fifty-five fraternal doing business in the State of New York; these societies are the largest in the country, and do the bulk of this class of business, yet their total income is surpassed by that of a single old-line company.*

II.—1881-1897.

The period from 1881 to the present time has been one of uninterrupted progress. There has been but one failure of importance, and the business has steadily grown in public favor. While it required fourteen years to regain the volume of insurance and income reached in 1872 and 1873, it only required seven years more to double it. This time the increase came under healthful financial conditions; it came to companies which had been tried as by fire; and it came to stay. The notable features of this period have been a decline in the interest rate, the rise of industrial insurance, the liberalizing of the policy contract, and an increase in the expense rate.

DECLINE IN INTEREST RATE

During the First Convention of Insurance

* The Mutual Life.

Officials, a committee headed by Mr. D. P. Fackler reported that in 1870 the companies doing business in Massachusetts earned over six per cent. interest on average gross assets. Ex-Superintendent William Barnes submitted a voluminous paper on the rate of interest to be assumed in computing a life company's liabilities, in which he said :

“ It is entirely clear that a governmental standard for valuations will be even more than safe, if the rate of interest assumed is not in excess of that which can be realized by investments in the public funds. An hundred million dollars can now be so invested at par, in a moment, with five per cent. interest payable quarterly and free from national, state or municipal taxation. Beyond reasonable question, investments can be made in the United States public funds, for an indefinite period of time, in such a manner as to realize four and one-half per cent. interest, compounded annually.”

Other eminent authorities* gave it as their opinion that six per cent. interest would be obtainable on first-class securities for a generation to come. Yet six years later United States four per cent. bonds were selling at par. The legal rate of inter-

*David A. Wells, Sheppard Homans, Elizur Wright, David Parks Fackler and C. F. McCay. See Report First Session, pp. 163, 167, 168, 170, and Second Session, p. 88.

est in the State of New York was reduced from seven to six per cent. in 1879, taking effect on January 1, 1880. In 1884 the Legislature enacted that on and after December 31, 1887, the official valuation of life policies should be made upon the Actuaries' Table of Mortality with interest at four per cent., instead of upon the American Table with interest at four and one-half per cent. Most of the other States wherein the latter standard obtained have made the same change. Although this change required about thirty million dollars to be added to the reserve funds of companies doing business in the State, it did not prove greatly burdensome to the companies, most of which had previously maintained a reserve by the higher standard in order to comply with the requirements of States wherein such higher standard prevailed. The average rate of interest received by the companies doing business in New York from 1871 to 1897 shows a decrease of about one and one-half per cent.*

It would not be a fair inference from the foregoing that the decrease in the interest rate will be as great during the next twenty-seven years as it has been during the twenty-seven just past, because by that rule the rate would in the course of time reach the vanishing point ; but we cannot fail

* See table, page 71.

to note that, if the interest rate realizable on Government securities be taken as a standard, a three per cent. standard in 1898 would be less conservative than a four and one-half per cent. standard was in 1871. While I would not urge any change in the legal standard at present, I would suggest that it will be the part of wisdom on the part of life insurance companies to make gradual provision for such a change. Conservatism in the matter of interest assumptions has been of incalculable value to American Life Insurance. The early companies were obliged to rely upon English experience for mortality rates, and in calculating their premium rates they adopted the English standards as to interest rates also. This gave a premium from which it has always been possible to make a reserve at the highest standard adopted by any State. In the Convention of 1871 a strenuous effort was made by two stock companies, which calculated their premiums on a six per cent. interest rate, to create an opinion favorable to allowing them to make their reserves on the same interest basis. One of these companies was the Universal, which failed five years later, having received an average of only five and three-quarters per cent. during its whole history; the other was the National of U. S. A., still solvent, but now winding up its affairs. If the early interest as-

sumptions had not been very much below the rate obtainable, it is easy to see that all the early companies might have been seriously embarrassed, instead of being—as they always have been—the very bulwarks of the business.

RISE OF INDUSTRIAL INSURANCE.

Industrial insurance, although in operation in England since 1854, was first introduced into this country in 1873. In 1880 three companies were issuing this form of indemnity, and the amount in force at the end of the year was somewhat over \$13,000,000. On December 31, 1897, the number of policies in force was nearly eight millions, insuring nearly one thousand million dollars. The amount insured under industrial policies now exceeds the total life insurance in force in this country prior to 1867. • Its salient features have been (1) weekly collections of premiums at the homes of the insured ; (2) the insurance of the whole family ; (3) uniform rates for males and females ; (4) limitation of the amount of insurance upon lives under ten years of age to burial fund proportions. Premiums are five cents per week and upward, insurance \$15 and upward. The average premium is about ten cents per week, and the average insurance about \$125. •

Fortunately for the business and for the insured, the industrial business has been done by a few com-

panies, and those doing the bulk of it have been managed with the highest integrity and skill. They have sought to furnish insurance that should be, first of all, safe, and then to make every device for lowering its cost inure to the benefit of policy-holders. The industrial companies have had to overcome anew the prejudice which was formerly directed against the companies insuring for larger amounts. Professional philanthropists have again and again conjured up the spectre of children starved and murdered for the sake of an insurance that would scarcely afford decent burial. Over against the spectre, the industrial companies have once and again set the facts, showing care in the selection of risks and in the payment of claims, and the further fact that the mortality among insured infants is lower than the average infantile mortality. Over against accusations of placing burdens upon poverty, the companies have shown that an increase in industrial insurance has gone hand in hand with an increase in savings bank deposits.

As bearing upon the history of Life Insurance, several points must be noted :

1. The industrial companies have immensely broadened the field of Life Insurance. They have not only extended its benefits to a large number of persons insuring for small amounts, but they have

included classes heretofore considered uninsurable. They have demonstrated that it is possible to ascertain and cover by an adequate premium the risk of death upon practically every healthy human being who is not living in flagrant violation of moral and hygienic laws. The companies have been obliged to contend with a death-rate among adults over twice as great as that which has prevailed among the companies doing an ordinary life insurance business, and to ascertain by actual experience the death-rate among children ; but they have within comparatively few years obtained the facts, and reduced them to a science, upon which they have upreared the stately structure of Industrial Insurance. The number of industrial policies now in force is over three and one-half times as great as the number of ordinary policies ; and, while the amounts are small, who shall say that the service done each family is not as great in the one case as in the other ? The poor of to-day are often the well-to-do of to-morrow, especially if they observe the rules of industry, economy and forethought which industrial insurance is so well adapted to teach. Having constantly before their eyes the benefits of insurance in small amounts, they will not fail to see the advantage of larger amounts when they are able to carry them.

2. Again, the industrial companies have shown that it is worth while to do small things in order to

accomplish great things—that the business will bear whatever expense is necessary to do it in the best way. •The companies have learned that the industrial classes will not save money and pay for insurance by quarterly or monthly premiums ; that they will not take insurance that involves remittances by mail or by periodical payments at an office ; but that they will cheerfully pay the cost of it if it is brought to their homes and sold on weekly instalments. • In their personal attention to policy-holders, in their management of details, and in their efforts to cheapen the cost of insurance to their patrons, the industrial companies have shown a wisdom, a zeal, an invention and a singleness of purpose, that may well excite the admiration of their co-laborers in the life insurance field. The conditions of success seemed hard, but by accepting them cheerfully and paying the price ungrudgingly, these companies have earned a success which is conspicuous in the annals of Life Insurance.

3. If we look closely we shall perceive that industrial insurance—so far as it applies to infants—has introduced a new principle. Every other kind of insurance is indemnity for value lost ; infantile insurance is indemnity for expense incurred. The infant life has no pecuniary value ; it does not produce—it consumes ; but, if it ceases, an expense must be incurred for its burial. The expense of its

maintenance, if it lives, can be provided for by the earnings of parents, because this expense—like these earnings—will be so distributed as to require but little outlay each week ; and so the expense, involving the instant outlay of a week's wages or more, can be met in the same way by industrial insurance. It is not exactly insurance upon life, but, in the language of the charters and of the law, "insurance pertaining to life." To my mind, a new dignity is added to Life Insurance when it proclaims over the cradle the sacredness of human affection, and prepares to assuage the grief of the bereaved by the assurance of Christian burial.

CHANGES IN THE POLICY CONTRACT.

This period has been pre-eminently an era of changes in the policy contract. Not only have many new policy forms been introduced, but all the old forms have been made more specific and more liberal with respect to the rights of policy-holders. The old rivalry between companies as to the amount of the annual dividend—which was always contingent—has given way to a rivalry as to benefits which may be guaranteed in the policy. The system of annual dividends has been superseded to a very large extent by long-dividend periods, with the options of continued insurance, or cash value at the end of the first dividend period.

The option of cash value is also made available under many policies at the end of other periods. This change had its origin, as we have seen, as far back as 1869, and it received a new impetus when the first 10-year dividend policies began to mature. In 1880 Massachusetts enacted the first cash surrender value law, and the practice of guaranteeing cash surrender values at definite periods was soon after adopted by most companies, even though annual dividends were continued. All companies now guarantee cash surrender values. The companies which first adopted the Tontine system restored the non-forfeiture clause, and have been among the foremost in liberalizing the contract.

Other new features introduced have had for their chief ends: (1) To relieve the policy-holder from vexatious restrictions; (2) to assist him in keeping the policy in force; and (3) to provide for its certain and prompt payment at maturity. The restrictions removed have been chiefly those relating to occupation, to residence and travel, and to the personal habits of the insured. The usages of forty-two companies now doing business in the United States may be summarized as follows:

Residence and Travel. The policies of sixteen companies contain no restrictions upon residence and travel; six companies impose restrictions during the first policy year only; seventeen companies

impose restrictions during the first two years of the policy ; one company imposes restrictions during the first three years of the policy ; and two companies make restrictions continuous.

Occupation. The policies of ten companies impose no restrictions upon occupation ; six companies impose restrictions during the first year of the policy ; twenty companies impose restrictions during the first two years of the policy ; one company imposes restrictions during the first three years of the policy ; and five companies make restrictions continuous.

Military and Naval Service. The policies of nine companies contain no restrictions upon military or naval service ; six companies impose restrictions during the first two years of the policy ; twenty-seven companies impose restrictions during the continuance of the policy. Among the latter class there is a considerable diversity in the treatment of this risk. The terms actually accorded to policy-holders in the military and naval service of the United States during the present war, while showing equally great diversity, have usually been more liberal than those provided under the companies' contracts.

Intoxicants and Narcotics. The policies of seven companies become void, or may be canceled during a limited period, in case of the excessive use of in-

toxicants or narcotics. In some cases the reserve, or the premiums paid, are returned. Seven companies require the applicant to warrant that he is temperate. The policies of twenty-eight companies contain no restrictions on these points, although the applicant's habits are inquired into.

The changes in the policy contract designed to assist the policy-holder directly in keeping it in force are: (1) grace in the payment of premiums; (2) the privilege of reinstatement; (3) loans on the policy; (4) automatic non-forfeiture conditions. The usage of the companies upon these points is as follows:

Days of Grace. The policies of sixteen companies provide that a grace of thirty days, or of one calendar month, shall be allowed in the payment of premiums; the policies of twenty-six companies make no concessions on this point.

Privilege of Reinstatement. The policies of fifteen companies make provision for reinstatement within periods ranging from thirty days to twelve months; the policies of twenty-seven companies contain no assurance on this point.

Loans. The policies of seven companies make provision for loans after being in force two years, those of sixteen after three years, those of five after five years; the policies of fourteen companies make no provision for loans.

Non-Forfeiture Conditions. The non-forfeiture conditions of thirty-one companies are automatic in their operation, so that an insurance value once acquired under a policy cannot be lost ; the policyholder receives it in some form whether he makes request for it or not. The policies of eleven companies require some action by the insured within a limited time in order to receive the benefits of the non-forfeiture clause ; the policies of twenty-seven companies allow a choice between extended, and ordinary paid-up, insurance ; the policies of fifteen companies make provision for but one form of paid-up value. Of the twenty-six companies which allow extended insurance, eighteen deduct the premiums falling due under the original contract, in case of death within a limited period ; eight companies make no deduction.

Incontestability. The policies of thirty-six companies contain clauses making them incontestable under certain conditions ; the policies of six companies contain no such clauses. Of the thirty-six, fifteen make their policies incontestable after a certain period upon the single condition that premiums or notes given therefor, with interest, be paid as agreed. Of the fifteen, one makes its policies incontestable upon delivery, three after one year, eleven after two years. The incontestable clauses of the remaining twenty-one companies all contain some

further condition which is binding during the life of the policy ; but, subject thereto, the clause is made operative by one company from date of issue, by seven companies after one year, by eleven companies after two years, and by two companies after three years.

Suicide. The policies of seven companies contain no suicide clause ; the policies of eight companies do not assume the risk of death from self-destruction during the first year ; those of twenty-one companies do not assume it during the first two years ; those of four companies do not assume it during the first three years ; and the policies of two companies never assume it unless it is proved to be involuntary or the result of insanity.

This review shows a great diversity of treatment of the various conditions of insurance and of the privileges allowed under the policy contract. The encouraging feature of it is, the liberality of all contracts as compared with those of twenty years ago, and the evident effort which the companies are making to remove unnecessary restrictions upon the action of the policy-holder, to give him as much assistance in keeping up his policy as is deemed consistent with the highest good of all, to make sure that he shall not lose acquired values by neglect or oversight, and to give him the strongest assurance possible that no contest will be made

over the final payment of his policy. As a chain is no stronger than its weakest link, so every condition and every restriction imposed upon the policy-holder between the delivery of the contract and its payment as a claim, creates a possibility of failure. It may be remote, infinitesimal, but it is there, as a menace, and as a preventive of that certainty which the policy-holder seeks in insuring. The fewer such conditions and restrictions that are allowed to remain in the policy, the fewer chances there will be of failure. The tendency already noted in the management of industrial companies has done much for the better security of policy-holders in the companies doing an ordinary business. That tendency is to give the best possible protection, taking no advantage of the policy-holder's ignorance, neglect or misfortune, but seeking to provide against these by doing for him whatever he will not do for himself, provided only he pays the cost. This is insurance that insures, when a company takes no man's money without rendering an equivalent in protection, according to the expense incurred.

THE EXPENSE RATE.

No review of this period would be complete which failed to take note of the increased expense ratio at which the business has been transacted.

In 1871 the ratio of expenses and taxes to premiums for insurance was 21.61 per cent.—the highest point it had yet reached. It then steadily declined to 17.38 per cent. in 1875—the lowest point since reached. From 1875 it increased to 30.47 per cent. in 1894—the highest point yet reached; and from that it declined to 29.28 per cent. in 1897. The Wisconsin Insurance Report of the present year shows that the expenses and taxes of all companies doing business in the State were 98 per cent. of the loading earned on premiums received. If we add to the loading the gain on lapsed and surrendered policies, considering it as a “surrender charge” to be used in replacing retiring risks, expenses will then be 83 per cent. of the total amount available for expenses.

I have on other occasions expressed the opinion that expenses are too high, and there is no phase of the business to which I have given more careful attention than this. I may say, however, after an experience of six years as chief executive officer of a large company, that it is much easier to criticise the rate of expense than it is to say where a reduction should be made. While we have made some progress in this direction, I am compelled to admit that progress must be slow, and that the ratios of a quarter of a cen-

tury ago are not likely to prevail again for many years—if ever. An examination of the expense ratio since 1871 shows that the years when it was lowest were the years when comparatively little new business was done, and when Life Insurance as a whole, was retrograding. The question must be looked at from various standpoints in order to determine whether or not a given ratio is too high. The business is free to all comers, and there are over fifty level premium companies doing business in the United States. They are all anxious to reduce the rate of expense, and each one has an opportunity to strengthen its appeal for business by so doing. Under such circumstances it would seem that the expense rate would tend to regulate itself under the stress of competition, here as elsewhere. There are very few things so well done that no improvements can be suggested ; but, in practice, the improvements are not always possible.

Again, we may look at the question with reference to the compensation received by those who do the work. It must be remembered that it is a business requiring as great talent and skill as any of the great commercial interests of the country—banking, transportation, merchandising—and that it is concentrated in comparatively few hands. I venture to say that the number of persons who are

receiving large incomes in the life insurance business is smaller in comparison with the business itself and in comparison with the responsibility incurred, than in either of the other callings mentioned. The salaries of all officers and Home Office employés—who are usually supposed to enjoy princely incomes—comprise less than nine per cent. of the total expenses of the life companies; while taxes, licenses and fees imposed by law in the various States are equal to nearly five per cent. of the total. Shall we say that the agents are overpaid? The great majority of life agents—like the great majority of men in every calling—have hard work to make a living. Of the 4,000 or more agents in the employ of the New York Life Insurance Company in the United States in 1897, a large proportion of whom devoted all their time to the work, only 841 wrote over \$50,000 insurance during the year; none of the remaining 3,000 odd could have got from his commissions an income of \$1,000 and many got much less. In contrast with this, Mr. Edward Atkinson estimates the average wages of specially skilled men in the mechanical trades at over \$1,200 per year, and those of average mechanics at over \$700 per year.*

It will probably be said that the companies are

* "Industrial Progress of the Nation," page 169.

too eager for new business, and that they spend too much money in order to make a favorable showing in this respect. Suppose we apply the same criticism to other great enterprises. Open your morning paper and read the expensive advertisements. These people are doing business for profit—why not save all this money? Besides this expensive publicity, wholesale merchants and manufacturers employ methods similar to those of the life companies, by maintaining agencies in many cities and employing an army of traveling salesmen. They will all tell you that these expenses are necessary in order to sell goods. The opposite method has been tried in life insurance. The Equitable, of London, pays no commissions to agents; it has been in existence one hundred and thirty-six years; and it has about \$35,000,000 of insurance in force. It issues less than four hundred policies a year. No doubt it takes good care of such as come to it; they get their insurance at a low rate; but very few people would ever enjoy the benefits of life insurance if all companies pursued such a policy. Isn't it better for the community that life insurance should be placed before every man and urged upon every man, even at the cost incurred by American companies, than that a few should receive its benefits at a low rate? The object of a life insurance company should be, first, to insure men at some rate;

and, second, to make the rate as low as is consistent with safety and with the fulfillment of its reason for existence.

While I believe earnest and persistent efforts should be made to reduce the expense rate, I do not believe in a cheese-paring policy. "The laborer is worthy of his hire," and the man who labors faithfully for life insurance should be able to live by life insurance. The most inviting field for effort seems to be the prevention of lapses. The second year is the critical period, and the ratio of lapses in all companies doing any considerable volume of business is, and always will be, high at that point. Various theories have been tested by different companies, and contracts have been made without renewal commissions to the agent, and again with renewal commissions. The results as shown by the reports to the Insurance Department indicate that the renewal commission has had little, if any, effect in reducing the lapse ratio, and companies which offer a standard form of agency contract based on a renewal commission to the agent, find their business going off the books just about as rapidly as the business of companies operating solely on a brokerage basis.

The insured stands more nearly alone when he faces his second payment. Even if the agent who wrote the application is present, and has interests

to be subserved, other considerations predominate. The inevitable reaction from the work of the rebater asserts itself at this point. In my judgment, the greatest cause of abnormal and improper lapse in the second year is the deplorable and indefensible work of the "Lightning Agent" or "Executive Special"—the Arch Rebater. There are natural and unavoidable forces at work which will make the lapses of the second year higher, perhaps, than in any other year. These causes we can never entirely eliminate—they are a part of the business. We can only hope by wise management to reduce the loss to the lowest practicable point; but the man who was tempted to take his insurance in the first instance because the agent submitted a proposition which appealed to the gambling instinct of humanity, a proposition which substantially offered to give him something for nothing, not only has no intention of paying the second premium, but he has been initiated into a vice which spreads like a contagious disease: it not only ruins him, but it contaminates and ruins his neighbor, and ultimately ruins the agent.

The second year brings a man seriously face to face with the obligations of his contract. If he was well and honestly insured in the beginning, if he paid one hundred cents on the dollar, he is mentally quite ready to go on. The demand for

the second premium brings no element with which he is not already familiar, and raises no question which he does not already understand. He feels that he has had nothing in the first year for which he has not paid, and consequently he is not mentally upset when he meets the conditions of the second year which exact the same cost for the same protection. On the other hand, when the man who received a rebate the first year is brought face to face with the serious part of his contract, which dates from the second premium, he is mentally in the condition of a gambler. He got something for nothing the first year; or perhaps, more correctly speaking, he got a great deal for a payment that was inadequate and improper, and it is human nature for him to want the same thing the second year. It is natural for him to shrink from paying the lawful price which the second year exacts, and he dodges the obligation which thereafter he cannot shirk, refusing to put more money into a contract which from that time forth puts him on a level with other men.

We cannot entirely overcome what I have called the natural conditions surrounding the payment of the second premium. Men's surroundings change. Even when there is no rebate offered, men may be overpersuaded by the influence of a stronger mind. There are men who have a proper sense of obliga-



tion toward their families only spasmodically. All these things affect our business just at this point, and always will. We can, however, to a very large degree, control the evil work of the rebater. Legislation on this subject has done something, but we have learned from bitter experience that it cannot reach the real seat of the trouble. The one power that can effectually check the rebate evil is the Executive Head of each company doing business. If the agents of all companies understood that rebating was really prohibited, not only by law, but by the explicit direction of the Home Office of the companies they represent, and that back of that explicit direction was a fixed purpose to execute it, the evil would be largely decreased. A merely passive desire on the part of Executive Officers will accomplish very little. The determination to abate what is more than a nuisance must assume an aggressive form. The agent must understand that his superior officers will not only notice a case of rebate if it is thrust in their faces, but he must also understand that they are looking for evidence, not only against the agent of some other company, but against him, and that if evidence is found, punishment will be swift and certain. Even this will not wholly exterminate the evil practice. Men will occasionally steal, notwithstanding the statute law and the Ten Commandments.

I hold, therefore, that agency contracts should be made on the theory that "the laborer is worthy of his hire," and that a good man is entitled to a good living. The apparently high expense rate of the first year that goes with this theory is perfectly legitimate and necessary, and in my judgment Life Insurance cannot otherwise be prosecuted with sufficient vigor to fulfill its true mission. But contracts which, to an outsider, appear to have been cunningly devised for the purpose of helping the agent to rebate, are quite a different proposition. The old style renewal contract was not devised for this purpose, but in very many ways it has practically operated to this end. There are styles of agency contracts in force to-day, the product of a later age, which convey the impression that they are intended to place in the hands of the agent exactly the tools which he needs to carry on this most nefarious trade.

Rebating and lapsing are twins, and if I may perpetrate an Irish "bull," twins born a year apart. The lapse follows the rebate, and the rebate is a direct offshoot of improper relations between the agent and his Home Office. This brings the matter directly home to those of us who hold executive positions, and raises the question as to what kind of agency contract will secure new business in the best way, and by that means reduce lapses to a

normal level the second year. In attempting to answer this question, I, of course, presuppose that the Home Office is unalterably opposed to rebating, and is determined to stop it, and that it cannot be tempted by any mere volume of business into winking at *facts* which indicate its existence, nor induced to retain in its service either the large writer or the small writer if he has been clearly guilty of the rebate offense.

Assuming that such executive intention exists, the rebate evil and its twin, lapse, are not uncontrollable. Any working system which will make it to the interest of the agent to do his business honorably from the beginning will tend to check the lapse rate. The industrial companies have found that their best way of accomplishing this is to pay a commission on the *increase* in premiums in force. This charges up all lapses to agents—so far as commissions on new premiums are concerned—and acts as a wholesome check on the writing of poor business and on the lapsing of business which ought to persist. Whatever we may think of the applicability of industrial insurance methods to insurance under large amounts, we must admit that the industrial companies have overcome difficulties that seemed insurmountable, and that their experience and their ways of solving the problems that have faced them may at least furnish useful hints to the rest of us.

In the company with which I am connected we have devised a plan for binding the agent closely and directly to the Home Office, transforming his calling into a permanent one, elevating his standard of character and of the treatment due to his clients. This plan is briefly, a system of annuities to agents, beginning after a definite period of service, fixed in amount by the persistency of the business issued as well as its volume (in this feature embodying the essence of the industrial companies' idea as to compensation of agents), and continuing under well-defined conditions for life. The results in our experience are already marked and gratifying, and, while sufficient time has not yet lapsed to afford a complete demonstration, I am satisfied that we have taken a step in the right direction.

I have said so much by way of criticism that I am sure no one will grudge me a paragraph in praise of the benefits which Life Insurance has conferred during the past twenty-seven years. The companies have, during that time, received from policy-holders over three thousand million dollars; they have paid over one thousand millions in death-claims, and nearly as much more in endowments, annuities, dividends and surrender values. It will help us to appreciate the significance of these figures if we compare them with

others which more strikingly impress the imagination. A third of a century ago a terrible civil war raged in this country for four years. The number of deaths in the Federal armies is officially stated to have been over 350,000; the National debt at the close of the war exceeded twenty-seven hundred million dollars; and the Government has since paid in pensions over twenty-one hundred millions. The debt was so great that the Nation's ability to pay it was openly questioned, and our pension legislation has been the most liberal the world has ever seen; yet, since 1871, we have paid out for Life Insurance more than the amount of the National debt when at its highest point, and the payments of the life companies to their members have nearly equaled the disbursements of the Government on account of pensions. The Nation poured out blood and treasure like water, and laid a heavy burden upon posterity, that it might insure its own integrity and perpetuity; under Life Insurance, individuals have freely paid these vast sums that they might insure the integrity and perpetuity of their families, and that their posterity might be free. The patriot who gives his life for his country, and the man who insures his life for the protection of his family, alike link their being with the future by

unselfish devotion to present duty, and though
they perish outwardly, they still live

“ In minds made better by their presence ; live
In pulses stirred to generosity,
In deeds of daring rectitude, in scorn
For miserable aims that end with self,
In thoughts sublime that pierce the night like stars,
And with their mild persistence urge man's search
To vaster issues.”



**BUSINESS OF THE LIFE COMPANIES REPORTING TO NEW YORK INSURANCE DEPARTMENT,
1871-1897.**

YEAR.	New Insurance Paid For.	Insurance Lapsed.	Insurance Surrendered.	Insurance in Force.	Premiums for Insurance.	Premiums for Annuities.	Interest and Rents Received.	Total Income.	Death-Claims Paid.	Matured Endowments.
1871	\$382,630,534	\$214,919,514	\$78,457,761	\$2,101,461,834	\$96,607,234	\$103,643	\$16,779,685	\$113,490,562	\$22,058,601	\$66,585
1872	413,328,900	190,283,427	74,078,718	2,114,749,591	96,820,575	88,108	20,703,346	117,306,020	25,195,956	76,242
1873	392,757,472	186,716,581	86,541,535	2,086,027,178	95,815,351	184,738	22,396,413	118,396,502	26,719,026	271,086
1874	297,595,813	179,023,161	92,796,824	1,997,236,230	89,280,988	154,008	26,297,718	115,732,714	25,225,636	370,956
1875	256,131,663	142,993,483	79,774,666	1,922,043,146	83,393,656	394,855	24,856,573	108,645,084	24,988,966	2,012,431
1876	200,045,225	123,652,153	84,548,242	1,735,995,100	71,712,200	344,408	24,301,885	96,358,583	22,453,039	3,146,638
1877	152,643,135	98,800,015	89,037,554	1,536,105,323	62,672,664	261,626	23,228,454	86,162,144	20,977,922	4,006,132
1878	136,993,566	78,936,466	72,489,046	1,480,921,223	56,771,301	464,794	23,226,664	80,462,999	19,688,717	9,211,612
1879	148,862,929	54,066,939	54,257,456	1,439,961,165	52,681,628	747,027	23,972,348	77,700,493	20,730,173	8,809,196
1880	164,070,653	42,787,694	37,453,801	1,475,995,172	52,760,181	1,212,207	23,431,057	77,493,445	21,215,550	7,901,810
1881	194,076,120	41,869,149	33,046,732	1,539,848,581	54,454,141	1,925,107	23,441,265	79,800,513	22,592,863	7,878,959
1882	227,327,390	48,678,171	38,120,541	1,637,648,872	58,842,089	1,662,185	24,565,860	85,070,134	22,849,935	6,301,288
1883	268,164,109	57,236,993	36,768,240	1,763,739,015	65,136,781	2,185,338	25,240,644	92,562,763	25,268,496	7,871,418
1884	273,886,433	77,650,963	42,103,966	1,870,745,521	70,708,697	1,397,367	24,958,112	96,974,376	25,802,737	8,778,833
1885	326,815,747	79,268,220	43,882,293	2,023,517,488	77,315,869	1,197,302	27,014,693	105,527,864	29,632,304	7,635,761
1886	383,307,479	80,895,034	45,035,381	2,222,413,950	87,009,422	1,717,492	28,234,401	116,961,315	30,229,615	6,926,211
1887	449,188,591	91,490,252	42,556,157	2,474,597,128	98,675,134	1,990,028	30,073,364	130,657,526	35,077,395	6,544,403
1888	530,275,315	121,013,284	54,153,514	2,761,577,128	111,957,270	2,402,260	32,664,931	147,024,431	39,107,059	8,023,316
1889	652,049,993	138,996,777	56,897,995	3,144,677,311	130,421,661	2,921,803	35,021,835	168,164,699	42,666,526	8,880,515
1890	723,193,701	171,674,879	67,323,414	3,542,955,751	146,397,756	3,249,193	37,871,010	187,424,959	48,171,153	8,688,171
1891	750,419,332	256,821,703	69,760,365	3,861,584,383	159,710,071	2,914,373	39,306,081	201,931,425	52,436,543	8,366,719
1892	772,993,037	261,764,011	92,663,678	4,199,441,397	178,030,226	2,577,930	42,416,842	223,024,908	62,735,436	7,744,002
1893	836,257,798	290,939,614	111,351,822	4,511,036,550	190,731,873	1,974,966	43,976,367	236,683,206	65,497,645	8,245,670
1894	751,193,495	334,048,737	136,091,384	4,657,583,042	202,547,590	2,584,454	51,402,434	256,624,478	67,010,135	8,067,748
1895	768,617,750	282,768,964	135,022,362	4,818,179,945	211,621,718	3,577,584	51,667,986	266,897,202	71,035,649	10,471,236
1896	706,598,839	288,107,890	136,690,809	4,967,576,418	218,671,474	5,044,290	55,658,786	279,373,107	75,898,337	12,424,363
1897	820,861,496	274,288,366	131,457,523	5,255,725,545	233,335,546	6,058,865	61,873,768	301,268,179	77,420,537	12,290,353

RECEIPTS AND DISBURSEMENTS OF ALL LIFE COMPANIES
DOING BUSINESS IN THE UNITED STATES, DURING
THE 27 YEARS, 1871-1897.

Insurance Premiums	\$3,139,293,003
Annuity Premiums.....	49,155,951
Interest and Rents	879,830,767
Total Income.....	<u>\$4,068,279,721</u>
Death-Claims Paid.....	\$1,051,006,646
Endowments	84,951,640
Annuities	29,524,064
Surrender Values	426,250,525
Dividends	413,857,241
Total to Policy-holders.....	<u>\$2,005,590,116</u>
Expenses and Taxes	\$828,302,848
77 companies—Assets January 1, 1871.....	\$272,129,969
77 companies—Surplus January 1, 1871.....	\$49,214,206
56 companies—Assets January 1, 1898	\$1,344,589,632
56 companies—Surplus January 1, 1898	\$187,794,037
77 companies—Insurance in Force January 1, 1871 ..	\$2,046,254,488
56 companies—Insurance in Force January 1, 1898 ..	\$5,328,072,646
Industrial Insurance in Force January 1, 1898.....	\$987,110,692

LIFE INSURANCE IN ITS RELATIONS TO THE PUBLIC.

JOHN M. PATTISON :

I ESTEEM it a great privilege to meet the superintendents of the insurance departments of the different States, but before beginning the discussion of the topic assigned me, I desire to remove from the minds of some of you any mistaken impressions which you may have received in regard to my position upon the subject of State and National supervision. I have been asked if it has not been injudicious for me publicly to advocate National supervision, because by so doing, I would incur the displeasure of the State commissioners, and that they should, therefore, discriminate against the company I have the honor to represent. I have answered "No," not in the least; that no State Superintendent whom it has been my pleasure to know, would ever use his power to the injury or annoyance of the Union Central on account of a difference with its President on this or any other sub-

ject, so long as the difference of opinion was an honest one. I have always claimed, and now claim, that a large majority of the State commissioners are, or would be, in favor of National supervision on the lines many of us have advocated, if they clearly understood our position. No active friend of National supervision has ever advocated the abolishment of the insurance department of any State. On the contrary, our position has always been accompanied with the provision that the insurance department of each State shall be continued, and that each of the forty-five States shall have its own insurance commissioner, just as it has its own Governor; that under the laws of each State the insurance department shall have control of all companies organized within the State, and, so long as such companies confine their operations within the State, the State control shall be absolute, and the National department shall have nothing whatever to do with such companies. Should they, however, go into other States, then, so far as their business is concerned in other States, they shall be under the charge of the National department.

If it is possible for the managers or presidents of all the life and fire insurance companies of the United States to agree upon anything, they should certainly do so on this greatest of all subjects,

National supervision. I trust it will still have the earnest support of a majority of the insurance press. It should be most earnestly advocated first by the presidents of the three great New York companies, because they have larger interests in their charge; and so far as I am informed, the presidents of all of them are among its warmest and strongest friends. These should be followed by the managers and presidents of the other companies, and if they should fail at any stage, then the agents of all the companies should take up the battle; and if they are not successful, then they should take their policy-holders into their counsels and with these allies, success will be assured.

The policy-holders are the ones who will be specially benefited, and it is the duty of the officers and directors of all these various companies to use their best efforts to secure National supervision for the benefit and better security of these millions of policy-holders.

No one has a higher appreciation of the benefits of a wise, judicious and honest supervision of the various State departments than myself; but however able and competent any State insurance department is, or can be made to be, I am sure all of you will agree that no State department as now constituted can properly look after any more than

the companies organized in its own State; and these examinations made by commissioners of other States every ten or twenty years, cannot in the nature of things, be very satisfactory, even though made with ample time and great expense. With a National department and civil service, every company would be the ward of the department and the affairs of each company would very soon be as fully and completely controlled and understood as are to-day the company of Ohio, by the Ohio department, those of Wisconsin by the Wisconsin commissioner; and the policy-holders of all companies, and of all States, would have the benefit of an additional supervision, which would give them additional confidence in the absolute security of their policies.

National supervision of some kind is sure to come, and its coming is only a question of time. Its enthusiastic advocacy by you as commissioners of the various States, guardians, as you are, of the best interests of the policy-holders, will certainly do more than any other thing to bring it about; and you will pardon me for saying that you could do no other one thing that would inure so much to the benefit of the millions of your constituents who carry policies of life insurance.

As to State supervision, I wish to say that I am one of its most earnest advocates, and I do not care

how often you visit Cincinnati, so long as you do not reduce the surplus of our policy-holders; in fact, our "latch string is always out."

It is no fault of yours that the laws of some of your States compel you to see how much money you can obtain for the State treasury out of the trust funds belonging to the policy-holders, rather than to see how much you can save for them. I hope the time will come in the official life of each of you, when you will have such influence with the law-making powers of your respective States, as our worthy host and some of his predecessors have had in the State of Wisconsin, so that you can carry out your ideas, and the true intent of an insurance department, by securing what is for the benefit of the insured; and to do this, you will recommend the abolishment of all laws whereby the policy-holders' money is used for any purpose, except for a liberal maintenance of the department itself, and all its necessary expenses. For any State to demand or exact more than this from the fund belonging to the prudent policy-holders and the widows and children as their beneficiaries, would be, and is almost as bad as the worst highway robbery. To do so, is as if a State should provide an agricultural department, put a superintendent of agriculture in charge to look specially after the interests of the farmer and then com-

pel him (the superintendent) to assess the farmers as a class, in addition to their regular taxes, an amount equal to about one-fifth of all the net profits of agriculture.

It has been stated by an eminent actuary "that the money taken out of the pockets of the people by the taxation on life insurance companies, would pay the annual premiums on about \$75,000,000 of life insurance. It would pay the cost of 75,000 additional policies of \$1,000 each. It would increase the cash dividends paid to policy-holders about 25 per cent."

State supervision in many of the States is no longer carried on for the welfare and protection of the insurance interests of the people, but it is degenerating into a position to collect fees and taxes to replenish the State treasury, or as an honored member of your association told me in confidence: "I am now but little more than a public collector to gather from the insurance companies as many shekels as possible to dump into the treasury to help pay the ordinary expenses of the State."

I have suggested to our actuary, in making up the dividends in the future, that he makes a separate statement, showing what the increased dividends would be to each policy were it not for the excessive and most grossly unjust taxes and fees

imposed by the various States on the funds of the policy-holders.

It is no fault of Commissioner Matthews, I am sure, but in the great State of Ohio, the money of these policy-holders is legally stolen and used not only to pay the expenses of the various other State departments, but there is a specific portion set apart every year to aid in supporting the fire department of the city of Cincinnati. What connection there is between a fund set apart for widows and orphans, and the fire department of Cincinnati, no one but a "statesman" of long experience can tell.

Unfortunately for me, our host, and the manager of this great entertainment, in giving as my theme "Life Insurance in its Relations to the Public," gave me no outline as to the treatment he wished me to give this broad subject. I take it that the various modes of treating it are about as many as the different views of the presidents of the life insurance companies as to how to superintend and govern their companies; or probably as numerous as the plans and the ideas of insurance commissioners as to the model way of managing a State insurance department, so that the politicians and the Governor of the State will be pleased; that the assessment companies shall be treated in a manner that will not seriously interfere with the party vote

at the next election ; that some public demonstration shall be made in the courts or the press against some supposed attempted wrong by one or two of the large life insurance companies, in order to demonstrate to the dear people that their interests alone are being looked after ; that the last farthing of tax and fees may be collected from all of the so-called old line companies ; that the business of the department will be conducted so as merit the respect of the managers in charge of the home offices of the various companies ; and, in brief, to do all the various acts and duties of this much-abused officer, so that he can have some little self-respect when he leaves the public service, and if possible, be able to make in his own mind, some little excuse for the few glaring abuses of trust that he has found but dared not expose.

At no other time in the history of life insurance, have its relations to the public been of such great, almost universal importance as they are at the present time, and it is difficult for us who are busy in thinking and planning to get new policy-holders to enjoy its benefits, to realize in the fullest sense the extent to which the public at large is affected by the results of this great scheme of beneficence. We make addresses, we issue statements showing that the life insurance companies of the United States alone are distributing to the widows and

orphan children, to the estates of holders of policies and to the policy-holders themselves, the sum of about \$150,000,000 per annum. The people hear and read, but do not realize the magnificent results, nor fully appreciate the ability exercised by the trustees of these great corporations ; or the hardest kind of hard work required of the agents ; or the great value of the State supervision of the various States. Had such a result been predicted one hundred years ago or even fifty years ago, it would have been laughed at ; and had it been prophesied to have been even possible in any other country, or in any other century of the world's history, it would have been considered a tale of the fairies. Yet in this age, in this country, and at this particular time, the results are taken as a matter of course. The intelligent business man reads the facts in regard to the many millions paid out by the various life insurance companies last year, and says, "That is all right ; that is what these life insurance companies were organized for." Then he wants to drop the subject, rings up his fire insurance broker to cover over night \$50,000 worth of merchandise which he has just received, for fear that a fire might occur, but says to the gentlemanly life insurance solicitor that he is very busy, but that if he will return in two or three months, he will give him a few minutes to explain

the special features of the new policy issued by his company ; but assures him that he does not want any additional life insurance. The same man, however, during the panic of 1893, would look over his assets several times every month, possibly several times a day, and while he would put an interrogation point on the face of every certificate of stock he owned, not knowing what its value might be on the morrow, or when the panic was over, when he came to his policy of life insurance, which some conscientious and persistent friend had virtually forced upon him, and which called for \$50,000, payable to Mary and the children, he realized that it is a bond good for its full face value of \$50,000 ; yes, it is all right, it is in a regular company—no need of any interrogation point on that. He puts it away by itself, and when on the train or at home, or when he awakens from a troubled sleep, he thinks of the \$50,000 policy ; he knows it is absolutely good, never a doubt about it ; he knows that if anything happens to him or his great business, Mary and the little ones, for whom he has spent his life, will be in a position of comfort, and with a smile he sleeps. And through all the days of that troublesome period, with this thought in his mind, he bravely fights the battle through.

For more than half a century the people of the United States have come to look upon fire and

marine insurance as so essentially a necessary adjunct to the successful carrying on of commerce, that without them the merchant could not carry on at all his business involving immense credits. They are taken simply as a matter of course, and the business and commercial interests of the country take them as a matter of course fully as much as a farmer takes the sunshine and rain; without them the farmer would not sow because he would not expect to reap. Without the protection and security of fire and marine insurance the business man would not buy and therefore could not sell. The farmer, however, does sometimes stop and return thanks to the All-Wise Providence for sending the rains in season and the life-giving sunshine, but the business man rarely, if ever, stops to think of the care of the large fire and marine insurance companies, without which his vocation would be gone.

Life insurance in its relations to the people is different from fire and marine insurance. These two branches of insurance are of the utmost importance to the business man in carrying on his business, principally from a mercantile standpoint; but life insurance is broader. Its results, too, affect the business man, and I am glad to say that the day has already come when a business man who is physically able and does not carry a respec-

table amount of life insurance, is looked upon as a man wanting in good business judgment; and the time will come when business men will be wise enough, not only to provide for their families in case of early decease, by carrying an amount of life insurance, the income of which will keep their families at least comfortable, but also they will provide against their own possible business failure by taking large endowments payable at the age of sixty or sixty-five, so that in case they have made a failure in life, as according to the statistics 95 out of every 100 do, they will by this means alone have made themselves sure to be of the five that succeed.

But life insurance, as I have said, is broader than fire and marine insurance, for it is not only for the business man, but it is equally beneficial and even more necessary for the minister, the lawyer, the physician, every kind of professional men, the farmer, the merchant, the mechanic, the day laborer and all classes, all vocations are recipients of its bountiful results.

The young man who now starts in life with an ambition to have an estate of from \$1,000 to \$5,000, which he can only expect to accomplish by the strictest economy and the hope of living fifteen, twenty or twenty-five years, can now get a bond calling for this sum, and in case of death the con-

templated work of a lifetime is realized ; or by an endowment, he can have the result in case of death and the positive sum at the end of the endowment period.

The merchant can make his business ventures, as most merchants to a greater or less extent must do, if he can feel that in case he fails and death should occur before he recovers from his business losses, his family will have the income of the \$100,000 provision of life insurance. The professional man instead of worrying over his inability to lay up a small fortune, can insure his life for the amount that he would expect to save by a whole lifetime of economy, and with a bond for this amount, he can devote his energies to the ambition of his life in becoming eminent in his chosen profession. What is true of the professional man, is also true of every other class, and thus all these men are not only made surer and safer, but they are able to accomplish the greatest possible results. In the language of a very eminent actuary, "life insurance is a scheme which enables every provident man to apply the truest and loftiest principles of practical benevolence in his own home. It is the close friend of honesty, sobriety, economy and persistent toil. It is the bitter and implacable enemy of improvidence, dishonesty, ignorance, selfishness and vice."

Life insurance not only includes the interests of mankind from a commercial and financial point of view, but it does more ; it includes the moral, the intellectual advancement of the race. The close student of political economy of the twentieth century is wanting in acumen if he fails to include the results of life insurance as one of the greatest of factors in determining the prosperity, the happiness, the welfare and the still greater advancement in civilization of the peoples of the world, and especially those of our own beloved America. It may be difficult to measure the effect of life insurance on some countries, because the immediate results are themselves not yet of any great magnitude ; but in our own country every student and thinker of average intelligence must recognize the very important part that life insurance bears among the great agencies at work moulding the destiny of the nation.

It may be difficult to estimate the full effects on the moral and intellectual condition of the people resulting from the benefits of Life Insurance. No one knows how many women and children are saved by it from the toils and temptations and oft times degradation of sudden and unexpected poverty. No one can fully estimate the comforts of the widows and families, the educational advantages given to hundreds of thousands of children, which

otherwise might have grown up in ignorance with its possibly accompanying horrors of vice and immorality, and no one would attempt to measure the increased energies, the brightening hopes, the quieter joys and peace of mind, the solace of the sick, and even the lives lengthened, the millions of husbands and fathers made braver, more courageous and truer, the millions of wives and mothers happier and more contented because of the knowledge that the strong arms of life insurance were around and about them, to cheer, to encourage and strengthen them in performing the manifold duties of their lives. We can, however, with a little thought, have some conception of the influence of life insurance on the commercial and financial prosperity of the country, of the quiet but more substantial strength that is given, and the still greater strength and security that may and will be given by it to the money affairs of the United States.

Financiers and statesmen have for years taken the aggregated millions and the balancing power that life insurance companies have given to the finances of the country, simply as a matter of course, without stopping to realize their silent power and importance. Statesmen and so-called financiers look with wonder on the results of laid plans, and wait to know the opinions and schemes of a coterie of men located in the Wall streets of

the few great business centers, because of the large accumulations of capital they can temporarily control for the weal or the woe of the people, the one or the other depending upon their judgment, whether it proves to be good or bad.

Granting that these great financiers have only the good of all the people at heart, and that they are always not only able but honest in their desires to plan for the nation's financial prosperity and not for any particular section of it, nor for any special class of individuals, I am willing to give them all the praise and gratitude their warmest and most devoted admirers can bestow ; and yet, we all know, with one little cry of a possible panic, their schemes come to naught, and much of their billions of other people's money is taken by the owners, drawn out by the depositors, and what is left of these immense accumulations of capital is placed behind bars with the time locks and combinations protected by clearing house certificates.

I do not wish to cast the least reflection on the bankers and great financiers of this country. They have done their part from their standpoint better, doubtless, than some of us have done ours, and instead of being criticised, as is so often done, they should be praised for everything they have earnestly and honestly done to improve and strengthen the finances of the nation.

I do not wish to detract from the honor that is so justly due to the bankers and financiers, nor of the very necessary and important part the banking interest and many other moneyed interests perform in the increased prosperity of our country. What I wish to try to do, is to point out and make prominent the fact that the accumulated millions of money in the control of the officers and directors of life insurance companies are a most important factor, and in my opinion *the* most important factor, in the solidity and security of the present or any other financial system our country may adopt. The accumulations of life insurance cannot be placed behind iron bars; they cannot be withdrawn, except to the extent that some companies, most of them, as I am informed, against the better judgment of their officers, have permitted that only element of possible danger called "cash surrender values" to be injected into their contracts. You will pardon me for expressing myself strongly on this subject, but I know you will give me credit for being honest and sincere when I say that the cash surrender value, in all policies, is nothing but a chromo of the cheapest kind, and if placed in policies so that it can be taken advantage of at any time, then a scandal in any company, however unfounded, might precipitate a run on the com-

pany, which would be like the run on a bank. The company and bank might be solvent, but when its doors are once closed, they are closed forever, the bank is a wreck and so most likely would be the insurance company. A life insurance company is not a savings society. It is better and broader ; it has a different mission to perform and a cash surrender even up to the full reserve is not the full value of a life insurance policy to the old holder, much less is it the full value to the wife and children.

Let the companies all adopt the Ohio law if they wish, so that they can aid or assist their policy-holders to keep their policies in full force until maturity by death or endowment, for in no other way can the officers and trustees of a life insurance company do their whole duty, in my opinion, to their policy-holders ; but do not make any special inducements or offer any gold-washed chromos for them to surrender them, and I sincerely hope that if any of you, commissioners, represent a State that has such a law as a part of the statutes of your State, that in the truest and best interests of true life insurance you will do everything in your power to have this one element of possible danger eliminated. The accumulations of life insurance cannot and should not be used to further or promote improper financial schemes ; their bank cannot suspend.

Some very good financiers have suggested that the banking system of the United States should be so changed that there might be a branch bank of some greater bank, and the branch bank located in any center needing its facilities or the use of its issued currency. It is possible that the laws of some of the States might need some amendments, but with those amendments, the life insurance companies could have any sum from \$100,000 to \$100,000,000 to loan to good borrowers on approved security in any needed locality or business center, and it would not be currency issued on the faith of certain deposits of questionable or even the best of securities, but it would be real money, if you will excuse the word, and the borrower can have it not only for thirty, sixty or ninety days, but for a period long enough for him to adjust his affairs, save his business from ruin and himself from bankruptcy.

Did any of you ever stop to realize what a great conserver the life insurance companies of the United States are, of the finances of the country?

Did it ever occur to you that the life companies alone could have loaned the United States the whole of the \$500,000,000 asked for to carry on the war with Spain—that they could have made this loan on bonds payable at any day, at the pleasure of the Government? Is it not a matter of pride that four of these companies alone could render the United

States any temporary assistance it might need in carrying on any war or in any other manner in conducting the affairs of the country in case of an emergency? With the assistance of all the life companies, the United States Treasury could so conduct its affairs that all the other moneyed institutions of the country combined could not affect its credit.

Life insurance as a business is the greatest in this or any other country and its success during the last quarter of a century is without a parallel. The integrity of the officers and directors of these great organizations, and the ability they have displayed, cannot but receive, as they most justly merit, the gratitude of their patrons and the admiration of the business world, but the greatest honor is due to the honest and conscientious representatives in the field of the various companies; they are the ones to whom is due the greatest credit. They have done a work second in its greatest results to but one other; they are the ones who have carried the bricks for the erection of this wonderful and most magnificent structure; such a structure that the relations of life insurance to the public to-day are so varied and important, that what I have tried to say to you on this subject is but a minimum of what might be said, and if it has given you even a glimpse of the beauties of the inner temple, I shall be glad and truly grateful.

GENERAL PLANS, RESERVES AND INVESTMENTS.

EMORY McCLINTOCK :

MY subject is at once broad and narrow. It embraces the whole field of life insurance, and yet that field has been largely apportioned to other speakers. For example, a life company has its relations to the State, and the consideration of these relations has been intrusted to others. In the same way I am relieved from discussing another important class of practical maxims and principles which relate to what is called moral hazard in the selection of risks. The insurance of lives for small sums has, under the name of industrial insurance, become a specialty of immense importance, which here and now receives due recognition, and with which I am therefore not concerned. It is impossible to speak of the nature and necessity of "reserves" without having much to say concerning the assessment system, which is itself one of the "general plans" under which the business of life insurance is

prosecuted ; yet on this subject again I am confined to generalities, because the pitfalls of this system, and the possible means of escaping them, are assigned for special and detailed discussion by others. As regards the customary methods of life insurance companies, my province relates to those essential points in which they all necessarily agree, while the peculiar features wherein they vary will be discussed by the speaker who succeeds me. Concerning "investments," a broad subject which I have no time to discuss at large, I shall consider only those points in which the investments of a life company may differ from those of an individual, a trustee, or a savings bank. "Investments" form part of my subject obviously because the reserve fund needs to be invested. My most important topic is the nature and necessity of a reserve fund, and as this fund may be invested on principles somewhat different from those which guide ordinary investors, we have occasion to note the points of difference. It is convenient for me to take this topic up first.

INVESTMENTS.

As compared with individual investors, the trustee, the savings bank and the life company are alike in being confined to investments entirely safe. The private investor can take speculative risks and if

he exercises good judgment can secure thereby a greater average income. The trustee, the savings bank, and the life company are debarred from taking chances, and must be content with such rates of interest as can be obtained upon investments of recognized security. Of these three classes, the trustee is usually most restricted, for he is compelled to adapt the investment of every sum in accordance with the particular trust for the purposes of which that sum has been placed in his hands. As a rule, the trust is liable to be changed or ended with little or no notice, so that in most cases the trustee endeavors to find investments which may on short notice be subdivided or converted into cash. The savings bank is never certain that it may not become liable to a heavy run, and must shape its investments accordingly. The life company is under no such restriction in respect to time or to the danger of a sudden call. It has this advantage over every other investor, that so long as it continues to prosper it can afford to make investments for long terms, and, since it holds no deposits, and is therefore not liable to a run, does not need to hold any great proportion of its assets in ready cash or in immediately convertible securities. Its annual income covers its disbursements. It is, however, desirable for a certain reason to hold a considerable sum in bank or in the form of securities immediately available.

This reason is that opportunities arise from time to time for the favorable investment of large sums, and in order to take advantage of such opportunities a company must either have the cash in hand or the means of obtaining it at once without borrowing. Two forms of investment are recognized as especially suitable : mortgages, and municipal or corporate bonds. A life company having large sums at its disposal can purchase good bonds in large quantities on the best terms, and can either hold them till maturity, or dispose of them subsequently at a profit. In this course there is no element of hazard, for a permanent institution like the life company is never compelled to sell at a loss, but can always hold its good bonds, if necessary, until they are paid at maturity.

WHAT IS ESSENTIAL ?

No life insurance organization has ever yet wound up its business successfully. I do not refer to reinsurance or amalgamation, but to that blessed ending, not wholly impossible, which is contemplated by theorists when they say that a life company can go on without new business and gradually wind up its affairs by maintaining a reserve sufficient to pay every claim up to the end. In reality life insurance organizations either succeed or fail, and permanent success depends upon the permanent

prevention of failure. A life company is not successful unless it is able to go on successfully throughout all time. What, then, are the essential plans and principles which must be followed by any life insurance organization aiming to endure throughout the future? It must be well managed, of course, energetically and prudently, but there are certain points and maxims peculiar to this business, developed by experience, and these are what we have now to consider.

PLANS MUST BE ATTRACTIVE.

First, your plans must be attractive to the public. Without this nothing can be done, for your first need is to be able to secure new risks without undue cost. I do not dwell on this point, because it speaks for itself, and will only call your attention to one or two illustrations. It is usually supposed that the co-operative plan is attractive but not secure, and that, notwithstanding its attractiveness, it fails because it is not secure. In reality the co-operative plan is secure but not attractive and in spite of its security it fails because it is not attractive. By a co-operative society I mean one which promises to pay in case of death such sums as it may actually collect. This plan is unquestionably secure, because it is impossible for such a society to fail to meet its engagements. It

is true that the engagements are not burdensome, but such as they are, the society can always carry them out. Of all known business organizations, the co-operative society alone is always certain to be able to meet its legal liabilities. It can never be broken up by legal process, assuming its affairs to be managed without embezzlement. Nevertheless, in spite of their legal security, these conservative organizations do regularly and speedily come to an end because they fail to attract new risks. The plan which is attractive when the society is organized, and when deaths are comparatively few because the risks have recently been scrutinized and none but good ones accepted, becomes anything but attractive, is indeed positively repugnant, when in the course of time the deaths become more frequent, and the assessments more frequent. It is true that the old members who are still in good health become tired of increasing payments and that a large proportion of them discontinue their membership before many years, but if their places could be supplied by new risks in large numbers without much trouble or expense the co-operative society could go on forever. The precise point wherein the plan necessarily fails is that after a few years the cost to new members is so great as to make it difficult to secure new members in sufficient numbers. If a man thinks of joining an as-

assessment society he will join one newly organized, in which the assessments are still few, rather than an older one in which the cost is notoriously greater.

I have said that the first principle of life insurance practice is to make your plans attractive. One plan which is not attractive to the public is nevertheless apt to strike the fancy of those who seriously and honestly endeavor to avoid the necessity of a reserve. It requires the collection of a premium each year from each member exactly sufficient to pay the cost of his current insurance. This is known as the natural premium plan. It commends itself by one reasonable consideration which every one admits and yet which few seem willing to follow in practice, that a man ought to be just as willing to pay the current cost of his life insurance as a natural part of his current expenses, and without looking for any return in case he does not die, as to pay the cost of insuring his dwelling without looking for any return. You may take it as a fact of experience, as a principle of human nature established beyond controversy, that the average man will not insure his life knowingly on that seemingly reasonable system which requires cash payments increasing from the beginning throughout life. It is true that societies nominally working on this principle are able to attract new

risks, but in almost every case you will also find that in reality the payment does not increase much, if at all, while this process of attracting new risks is going on, and that the members expect that their payments will be kept down by dividends for a long period in the future, or perhaps permanently, because they see them kept down in the case of policies taken out heretofore. My point is that the natural premium societies in which the payments actually increase every year from the beginning are exceedingly few in number and quite recently established. They are working along faithfully and honestly indeed, but against increasing difficulties, because no amount of argument can make their plan attractive to the average man. There are select souls here and there, like you and me, who are swayed solely by reason and who may be induced to join in forming a society of this sort. The difficulty is that in this commonplace world of ours there are too few superior beings like you and me, and that the average man will have nothing to do with the natural premium system in actual practice, with his annual payments increasing from the start. If you take the trouble to watch the progress of this little handful of societies working vigorously on that system, you will find one after the other giving up the struggle. One will adopt some system of dividends to pre-

vent the payments next year from increasing above what they are this year; another will change its system and envelop itself in an atmosphere of reserve; and still another will go out of business altogether. The thing will not work and cannot be made to work.

It is sometimes supposed that the natural premium system is sounder than the system of assessment after death because the payments are made in advance. Assuming the assessments after death to be made upon an equitable system, I am unable to see much reason for this widespread opinion, though of course it is better to collect one or two assessments in advance. All plans which contemplate only current payment for current insurance, without reserves, are essentially the same in principle and open to the same objection. There is nothing radically unsound about the assessment system except the creation of dissatisfaction by the increase of payments, and except also the absence of any penalty upon discontinuance; and precisely the same elements of unsoundness are to be found in the natural premium system.

PAYMENTS MUST NOT INCREASE.

I have mentioned as an element of unsoundness the creation of dissatisfaction by the increase of payments. This brings me to the second of the

principles or maxims which I have to lay before you as essential to all sound plans of life insurance. You must not only avoid dissatisfaction in advance by making your plans attractive, but you must also arrange your plans so that they shall not create serious dissatisfaction in the future ; and experience shows that while dissatisfaction may arise here and there for various reasons, there is one evil which may be relied upon invariably to create intense dissatisfaction, and this evil is the pressure of the increase of cash payments without prospect of speedy relief. For practical purposes, this second maxim, that you must guard against future dissatisfaction, may be condensed and embodied in this simple warning, that your plans must not be such as to require from the policy-holder at any future time a permanent increase in cash payments. That the average man cannot be persuaded to remain in a society knowing that he must pay more next year than he does this year, and that his payments must go on increasing thereafter as long as he lives, is a fact of human nature as it exists which must be kept prominently in the foreground as a vital practical fact, I might say as one of the most important of those warning beacons which are or ought to be familiar to every navigator on the sea of life insurance. It is already generally understood that new

members are not easily secured if there is a clear agreement for immediately increasing payments. What is not so widely known is that the same intense dissatisfaction is produced among members already insured, if and when their time comes to experience a notable increase in their payments without prospect of relief. This state of things is so well settled by experience that it may be accepted as a solid fact of human nature. I do not say that it ought to be so; I agree that it ought not to be so; I only say that it is so. If you cannot educate new members, in the first flush of their zeal, to be content with increasing payments, how can you expect that old members, who have for a period of years been accustomed to making payments practically stationary in amount, and who have hoped that no increase would ever occur, will rest content when the increase is actually upon them? The experience of every assessment society which is past its youth proves the contrary, and I may add that a like experience has attended every life company which has made any long-continued experiment with any plan involving increase of payments. The old premium note system in this country was a reasonable system for any one who understood it, but as the notes increased the cash payments for interest also increased, and the average policy-holder could not

understand it and would not put up with it. Until some one society or company is able to show the working of increasing payments, without hope of relief, and without serious dissatisfaction throughout a period of years, and so to disprove this principle, we must continue to recognize as a guiding maxim that human nature rebels inevitably against increasing payments.

It may naturally be asked, what particular harm does it do if people do get discontented after five or ten years and discontinue their contributions? Does not the society always have a large number of risks in force whose period of discontent has not yet come, and can it not go on forever, taking in new members with payments practically stationary for a term of years, and letting them go when the time comes for the increase? These questions are reasonable questions. They indicate the point of view of men who have given considerable thought to the subject, and who honestly object to the accumulation of a reserve fund. They agree that new members will not come in unless their payments are in some way protected from increase for a considerable period after entrance. They agree that at some time in the future there must be a necessary increase, and that the average man will discontinue his payments in consequence. They have now and then heard good actuaries say that their

companies have not suffered any notable increase in the proportion of mortality by reason of discontinuances. Granting that discontinuances must be numerous, and regretting the necessity of perpetually recruiting new members to take the place of those dropping out, they nevertheless see no unsoundness in the situation, and no reason why a society working on that system should not go on successfully and permanently. To discuss this point intelligently and satisfactorily, it is necessary to examine with some care the effect of discontinuances upon the average quality of the risks remaining.

HOW DISCONTINUANCES AFFECT DEATH LOSS.

If you ask the actuary of any sound and popular life company whether the good lives have dropped their insurances in greater proportion than the impaired lives, his answer will quite probably be "No." You may thus obtain unimpeachable evidence that various companies have not suffered appreciably by the lapse of good risks in undue proportion. A life company which retains its popularity does not, in fact, usually suffer on the score of vitality by reason of discontinuances. It may have many lapses in the first year of insurance, but the medical examination is in such cases so recent that the risks remaining during the sec-

ond year are on the whole unusually good, and the like holds true until the fourth or fifth year. After the third year, the lapses in a popular life company are not so numerous, and those which do occur may be traced to one of three causes. The first cause is a change of circumstances, by which the policy-holder finds himself unable to meet his premium payments. It is believed that lapses of this class occur in greater proportion among those risks which have become deteriorated in health or in habits, so that the net effect of such lapses is probably favorable. The second cause is that the beneficiary may die or be otherwise provided for, so that the insurance is no longer needed. Lapses from this cause may be presumed to occur in fairly uniform ratio among risks of all grades, and therefore to have little or no effect upon the quality of the risks remaining. The third cause is a change of feeling on the part of the individual policy-holder, notwithstanding that he still needs insurance and is able to pay for it. Although the company retains its general popularity, this individual is no longer satisfied. Whether the fault is his own or that of the agent who induced him to insure, or that of the agent of some other company who dislikes to see him go on wasting his money, this individual is dissatisfied and drops his policy. Since lapses of this class occur chiefly

during the first two or three years of insurance, this cause of lapsing in popular companies is a minor one after three years. So far as it extends, however, the effect of it must be injurious, because good risks become effectively dissatisfied much more easily than impaired risks. Taking all three causes of lapsing together, the effect of what we may call customary or normal discontinuances is not very noticeable one way or the other. After the fourth year of insurance, the death losses of a good company may be expected to range between 85 and 90 per cent. of the expected loss according to the American Table of Mortality. How is it now with the assessment society or the natural premium society? Instead of the small lapse rate after five years which is found in the life company, which becomes still smaller as years go on until it is scarcely perceptible, the assessment society which has been running along comfortably for a number of years finds itself all of a sudden subjected to a great proportion of discontinuances, nearly all of which are due to the third cause which I have mentioned, dissatisfaction. I ought to add that the assessment society is all along subject to depletion in consequence of the adverse representations of agents of life companies or of rival societies. These representations are most effective with the best class of risks, who are

able to secure insurance elsewhere and to pay for it. Whether worked upon by rival agents or actuated merely by discontent with the increase of their payments, most of those who drop out of assessment societies do so while still in good health, thereby increasing the proportion of impaired risks to the total of risks remaining in force, and the effect upon the average vitality of the risks remaining is damaging and before long disastrous. The damage wrought by this kind of general dissatisfaction is not only great, but cumulative. There is first a decrease in the number of risks in force, and then there is a greater proportion of mortality among those risks which do remain in force, that is to say, there is an excessive death loss. This increases still further the cost of insurance to the survivors, and this again increases the dissatisfaction, and so on, each form of evil increasing the other, so that assessment societies which once become the objects of general dissatisfaction are regarded by all experts as doomed to a speedy end.

Just here I wish to remark that in speaking of assessment and natural premium societies I leave out of consideration those mixed forms of society which have some other bond of union than pure life insurance. When there is no such other bond of union, such a society may be compared with

the work of a party of children on the beach, who have constructed something resembling a ship's cable out of good, hard, moist sand. A cable of that sort is as sound as any other until you begin to use it. But if these children have put a core in the middle of their rope of sand, of a really tough material, such as a strong cord, or a steel chain, those who expect the structure to fall to pieces may be disappointed. If it were the custom of the British House of Lords to assess themselves whenever a death occurred among their number, the House of Lords would still hold together notwithstanding any increase of assessments. In the same way it is quite possible for a professional body, a trades union, or a fraternal society, to combine death loss assessments with other elements of their constitution in so small a proportion that the dissatisfaction over assessments is counterbalanced by the cohesive power of the other features of the system. It is enough to say that death loss assessments are an element of weakness wherever they appear, and that whether this element of weakness is counterbalanced by other elements of cohesiveness and strength disconnected from the assessment principle is a question to be decided on the merits of each case in which such a combination appears. If the fraternal element is strong enough to carry the assessment element on its back, well and good.

Again I beg you to observe that I am not decrying assessment societies when I explain their acknowledged deficiencies. Their central idea is honest and wholesome, that men should combine to bear one another's burdens. The benefits of the system are obvious and immediate, while its evils at first appear a long way off. It is true that the benefits which it renders to those who die early may be counterbalanced eventually by the betrayal of those who are no longer insurable when their societies go to pieces, yet those benefits have been rendered nevertheless, and rendered mostly to the families of those who could not have been persuaded to insure in any other way. Even those who are finally betrayed have mostly no right to complain, for they also could usually not have been persuaded to take the benefit of a sounder system. If it be said that the assessment system thrives chiefly among the ignorant and the prejudiced, it may be answered that no system can be wholly bad which persuades the ignorant and the prejudiced to insure their lives, even precariously and for a short time.

The acceleration of excessive death loss, due to widespread dissatisfaction, is, of course, not confined to assessment and natural premium societies. Thirty years ago there were many small and ephemeral life companies which, unless they were

wound up suddenly on technical grounds, showed towards the end an excess of death losses as compared with the table expectation, this greater proportion of loss being due notoriously to the unwillingness of the good risks to go on paying premiums after impending failure came into view. Actual experience of every kind concurs to show that the acknowledged harmlessness of such lapsing as occurs in popular life companies affords no real basis of hope to the managers of societies in which payments must increase and in which members who discontinue have nothing to lose.

PENALTIES UPON DISCONTINUANCE.

It is necessary to add this qualification, "nothing to lose." If every member of such a society were obliged to make with it a large deposit on interest, to be forfeited in case of lapse, the powerful cohesive force of such a system might prevail against the annoyance of increasing payments and the wiles of rival agents. The idea of forfeiture is so unpalatable that some have come to regard all forfeiture as unjust. Is it so? Why should an assessment society or a life company be obliged to bear a burden for which it gets no pay, and from which the fire or marine insurance company is free? These other companies can cancel any risk when it suits them. The life organization is required to

carry its risk till death. It examines the risk once for all at the beginning, and if it gets a single premium for life, it makes a fair bargain. Both sides are on an equality. The company and the policyholder are alike compelled to carry the contract for the whole of life. But when the company waives its equitable right to require in advance a single premium, accepting instead assessments or premiums at short intervals, and, without claiming the right to discontinue its liability, grants to its member the right to discontinue his payments without loss, it gives something for nothing. I have no time to elaborate this point, but beg you to bear it in mind. The fire company retains the right to close its risk at any time, but the life company relinquishes all claim to such a right for a consideration, and this consideration is called penalty, forfeiture or surrender charge. If it should impose no penalty it would give something for nothing.

Now arises another question. We have seen that a popular life company need not lose vitality through lapsing. When it incurs disfavor, and then only, it suffers loss in that way. Can it not afford to rely on the continuance of approval, and make itself still more popular by abolishing the penalty, even though it does admittedly grant a valuable option without consideration, and so give something for nothing? I answer No, for two

reasons. First, it has no right to hazard its permanent existence on the rash assumption that its operations through all future time can never meet a temporary check. A life company has too many invaluable interests in its charge to take wantonly the risk of disaster and bankruptcy arising from the speedy disintegration which, in the absence of penalties upon discontinuance, must occur whenever a cloud of distrust may envelop it in consequence of some temporary mismanagement or misfortune. And in the second place, we must recollect always that no popular life company has ever yet actually experienced the effects of the abolition of all penalties. The penalty in some form has heretofore stood as a barrier against the assaults of rival agents. Can any one suppose that the life companies could successfully have preserved in force their due proportion of good risks, against all the interested and insidious assaults of rival agents, if there had been literally no penalty upon lapsing, if, for example, every policy-holder could have claimed at will, at any moment, his supposed technical proportion of the company's funds? No, you cannot presume that mere general popularity can protect you against rival agents if you impose no penalty; and apart from that, you have no right to stake the future existence of your company on the presumption that temporary misfortune or mis-

management can never possibly occur. A penalty is certainly just, for no one is bound to give something for nothing ; and it is not only just but also absolutely necessary, in the absence of some other impregnable element of cohesion, to every society or company which means to endure for all time.

INJURIOUS PLANS NOT ALWAYS FATAL.

The first principle which I have enumerated is that you must make your plans attractive ; the second is that you must guard against any future increase in cash payments ; and now the third is that you must not permit discontinuance without compensation, in the absence of some other sure bond of union. If any one of these three fundamental principles is wholly ignored your society or company is unsound. On the other hand, of course, it is possible for a company to ignore one or the other of these principles in the transaction of a small part of its business, the remainder of the business being conducted judiciously, and in this case the resulting damage is only that which arises from that particular portion of the business. Take for example the renewable term plan. According to this plan a certain premium is paid annually for ten years, then a higher annual premium during the succeeding ten years, and so on, the premium increasing by steps every ten years. Companies

which adopt this plan have usually endeavored to make their first premiums high enough to yield eventually dividends which may prevent in reality the future increase of payments which is nominally stipulated. If their foresight is good, so that the payments do not eventually increase; such companies do not infringe our second principle, which warns us against increasing cash payments. If their foresight is not good, the damage arises only from such part of the business as has been done on that particular plan. Again, it may happen that a plan which is unsound in one respect may be so useful in another that the evil is wholly or partly counterbalanced by the good. Take for example the privilege of surrender without loss which is granted by many companies at a fixed period named in the policy itself, in connection with the deferring of all dividends until the end of the same period. This plan is defective in granting a privilege of surrender without loss, notwithstanding that the privilege is granted but once in the existence of each policy. On the other hand, apart from the attractiveness of the plan, it brings in a class of risks of unusually good quality, and this special advantage continues until the end of the critical period, the death losses among policies of this class being particularly light. The actuaries who originated this system many years ago

knew that after the end of the period the loss on such policies as remained in force would be greater in proportion than before, and this expected result has actually taken place. When the period of maximum surrender value arrives the holder of the policy is besieged by every agent in his neighborhood, each of whom has had for years in his pocket-book a memorandum of the exact date when that precise policy would be available. In self-defense the agent of his own company is compelled to join in the scramble, or perhaps he too has had the same date in his pocket-book for the same reason. It results that a large proportion of the best risks claim their guaranteed values almost as a matter of course. The worst risks not only know that they need the insurance and cannot get it elsewhere, but are advised by all their friends in the business to retain it. There are some bad risks who surrender, and many good risks who refuse to surrender, but on the whole the proportion of good risks who surrender is much the larger. So far as anything is known concerning the experience of the companies which have been working longest on this plan, the loss from excessive mortality after the end of the period is just about what the actuaries predicted many years ago. The gain arising from this plan, due to lighter mortality before the end of the period, is no doubt greater on the whole

than the loss from the heavier mortality afterwards. There are other forms of policy contract, involving options in the future, which open the door to adverse variations, by which for example a bad risk can increase his insurance or reduce his premium payment, or a good risk diminish his insurance, without compensation or penalty. As a rule such options are introduced merely to make the policy more attractive at the beginning, but they are sure on the whole to make the business more expensive in the end, and they are usually devoid of any such counterbalancing advantage as that which I have mentioned as belonging to the deferred dividend plan.

MINOR SUGGESTIONS.

In addition to the three fundamental principles which I have formulated, there are various minor observations which are worth noting, but which I have no time to dwell upon just now. One is that plans requiring small premiums attract on the average a poorer class of risks than plans requiring large premiums. Another is that while making your plans attractive you must avoid making them especially attractive to bad risks or to persons contemplating partial or total suicide. Another relates to a form of fraud which consists in the understatement of age in order to reduce the premiums pay-

able. To encourage frauds of this kind, it is only necessary to provide expressly in each policy that any one who understates his age, and so secures 50 per cent. more insurance than the premium for his real age will buy, shall enjoy all he pays for if discovered and 50 per cent. more if not discovered. Another observation is that if, for the satisfaction of honest men, a policy is made incontestable after a given period, it should at least retain some terrors meanwhile for those who bear false witness in making out their proposals for insurance. Another is that it is well to avoid any peculiarity of system which relieves policy-holders of the necessity for making their payments promptly at regular intervals. The law of Massachusetts was for many years objectionable in this respect, the companies of that State suffering severely in the resulting disorganization of their premium collections.

PLANS FOR REDUCED LEVEL PREMIUMS.

Returning to our three main principles, you must, apart from making your plans attractive, prevent any future actual increase in the annual cash cost, and at the same time you must provide for some compensation or penalty in case of discontinuance. Both of these necessary requirements are met by increasing the annual cash payment to

a point which will obviate the necessity of any future increase, the excess of the earlier payments being held as a reserve fund. In after years, when the annual cash payment made by an aged policy-holder is no longer sufficient to carry the current risk on his life, the deficiency is made up by drawing upon the reserve fund. By thus securing an over-payment in the earlier years of insurance, the company secures also the needed element of cohesion, because the old policy-holder knows that he is paying less than he would now have to pay for the same insurance at his present age, and therefore knows that he is losing something if he discontinues his insurance. The provision of a reserve, in short, prevents the injurious increase of cash cost and prevents also the possibility of discontinuance without loss. It is now generally conceded that a reserve of some sort is essential to the permanent welfare of every organization which devotes itself to the business of insuring lives. There is, however, some disagreement concerning the amount of reserve which it is necessary to hold for these purposes. It may be admitted at once that if the premiums and reserves are such as will certainly prevent any future increase of cash cost to individual policy-holders, they are also sufficient to discourage discontinuances. The disagreement to which I refer relates therefore only to the amount

of the premiums and reserves necessary to preclude the possibility of increasing cost. Some hold that if the customary surrender values are withheld, the annual cash cost can be reduced to correspond, and this is certainly true. Other things being equal, the amount granted annually by the company in the way of surrender value in paid-up insurance or otherwise would, if saved, enable it to increase its annual cash dividends and thereby reduce the annual cash cost of each policy in force receiving such dividends. I will not discuss the justice or injustice of this sort of return to the old practice of universal forfeiture. It may be claimed, and cannot easily be disproved, that such a course would be entirely just if all concerned understood it and agreed to it from the beginning. In fact, there have been and are several plans of insurance which under other names have for a time possessed, without demur from any quarter on the score of injustice, these three characteristics, namely, low and uniform cash payments, small cash reserve, and no real surrender value. I will mention one or two of these plans for the encouragement of those who are endeavoring to place assessment societies upon some sounder basis, so as to secure practically level payments without holding full reserves. For their discouragement I have to add that as yet no one of these plans has been carried on successfully

for so long a time as to remove all fear of its failure.

One such plan which has been practiced here and there by regular life companies is the renewable term plan, of which I was speaking a while ago. While the premiums and reserves on this plan are small, the premiums have nevertheless, in some cases at least, been computed expressly with a view to the prevention of any future increase in cost by the accumulation of surplus and the application of dividends to that purpose. The plan is still on trial, with the chances apparently against its permanent success with the rates of premium heretofore charged.

A second instance may be found in a plan which some of us are old enough to remember, which has long been abandoned, but which for a time dominated the practice of life insurance in this country. It was called the half-note plan. One-half of each ordinary life premium was paid in cash, and the policy-holder gave what was called a note for the other half. In case of lapse the companies did not collect the notes, but simply cancelled them. In case of death, the companies did not collect the notes, but again cancelled them. The losses were paid in full. The reserve was calculated in full, and the notes were claimed, and properly claimed, as technical assets, being in the

nature of an offset to a portion of the reserve. The real cash reserve consisted of the nominal or technical reserve less the outstanding notes. No surrender value was paid, except of course the cancellation of the so-called notes. As the notes were marked up as assets, their cancellation in case of lapse was entered as a charge to the account of surrender values, and in case of death to the account of dividends. Looking only at the cash elements of the transaction, and disregarding these phantom notes, we see a reduced cash reserve, no real surrender value, no real dividend, but on the other hand the payment in full of the insurance money in case of death. As regards cash cost, there was a little increase for four years only. The first year the cash cost consisted of one-half the nominal premium. The second year the cash cost was $53\frac{1}{2}$ per cent., the third year 57 per cent., the fourth year $60\frac{1}{2}$ per cent. and the fifth year 64 per cent. of the nominal premium. There was no further increase, but the cash cost remained fixed at 64 per cent. of the nominal premium. The increase which took place for a few years represented interest on the outstanding notes, because every year a note was taken for 50 per cent. of the nominal premium, and interest was collected at the rate of 7 per cent. The reason why the cash cost never increased above

64 per cent. of the nominal premium was that the number of notes outstanding never exceeded four. Whenever a new note was taken after the fourth, an old note was returned and charged on the accounts as a dividend. The policyholders submitted readily to an increase of cash cost for four years, because they knew that every policy more than four years old was relieved from further increase. The system was really neat and satisfactory as long as it lasted. It lasted until it broke down. It broke down because the cash payments were too low, so that the burden finally became greater than the companies which practiced it could bear. Nevertheless the system actually worked for many years, and the companies which practiced it built up considerable business, one of them becoming for a time the largest in the country. The precise point where the plan broke down was that the nominal dividends which the system compelled the companies to grant increased faster than the nominal divisible surplus. It was therefore necessary to reduce the dividends, which up to that time had amounted on each policy to exactly one-half of the annual premium, in addition to the dividends which consisted in returning notes after death. Fortunately, as it happened, it became generally agreed about that time that the proper method of dividing surplus was to make small divi-

dends on new policies and larger dividends on old policies, in accordance with the so-called "contribution plan" for the division of surplus. It was therefore still possible to give fairly large dividends to the older policies, so that the actual increase in cost never became unbearable, but it was impossible to continue the half-note system in connection with the contribution plan of dividends, because there was no longer any definite certainty of a 50 per cent. dividend at the end of four years and annually thereafter. The change produced some discontent among the older policy-holders, but as they continued to receive fairly large dividends their cash payments did not increase beyond endurance. It was however necessary to drop the half-note plan for new business. The plan which was effective and popular as long as the public believed that they could rely on the strict limitation of the outstanding notes became untenable when they realized that the number of notes on one policy would increase to five, six, eight, or more, and that in case of death the outstanding notes were no longer returned as mortuary bonuses, but were deducted from the insurance money paid. The stronger note companies were able to make a change to the cash premium basis and to continue business in good repute. Some weaker companies failed. For a time some business was done here and there with notes equal

to one-third of the premium, but even as thus modified the note system did not survive.

Concerning all attempts to reduce premiums by reducing reserves and surrender values, we have just this criterion by which to judge. If the cash premiums actually paid by contented policy-holders are guarded against any serious permanent increase in the future, beyond the possibility of doubt, the system is sound. Experience shows that the full level premium system is always safe, assuming ordinary good management, and experience has not as yet shown the same concerning any modification of the full level premium. The difficulty is just here: to insure safety, you cannot fix your premiums much below the usual non-participating figures; and unless you do fix them decidedly below those figures, the public will continue to prefer the customary plan which provides paid-up insurance in case of discontinuance.

STANDARDS OF MORTALITY AND INTEREST.

What I have said hitherto concerning plans relates to general principles and their applications. To put these principles into practice you must know how to compute premiums and reserves. The first thing necessary is a mortality table. This should be taken so as to be on the safe side. For insurances, your table must show at all ages a mortality

somewhat greater than experienced by good companies after the effect of medical selection has worn off, that is, after four or five years from the beginning of each policy. For annuities, if you deal in them, your table must be on the safe side in the opposite direction ; it must show at each age a mortality at least as light as that experienced on previous annuity business, because in this case the danger which the company has to guard against is not excessive mortality but excessive longevity. The latter table should also be used for pure endowments, or contracts to pay a certain sum on the attainment of a certain age, without insurance in case of previous death. For contracts in which these two opposite principles are combined, one or the other of these tables should be used, according to the feature which is predominant ; and sometimes, where options are given, both tables should be used. For example, if you combine a term insurance up to a certain age with an annuity after that age, one or the other table should be used according to your judgment of the predominating element ; but if there is an option for discontinuance without loss at the time the change occurs, you will need to use the insurance table for the insurance and the annuity table for the annuity. From this point on, I shall, as regards tables, confine what I have to say to the use of the insurance table.



Another element which you have to assume in advance is the rate of interest to be relied upon as obtainable upon investments.

CALCULATION OF SINGLE PREMIUMS.

Without going into mathematics, it is possible to show in a few words how premiums on a single life may be calculated. For every possible risk there is a net single premium, and this must be increased by a loading or margin for contingencies, including such expenses as are not otherwise provided for. To explain how a net single premium may be calculated, I invent for this occasion the term "insurance unit." This means the single premium at the present age for one year's insurance of one dollar at any given future age. It is plain that if you once have these units calculated for all ages, you can, merely by adding them together, find the single premium for any possible insurance. For example, for a whole life insurance, uniform in amount, you have only to add the successive units for each year throughout the future, and multiply the sum by the amount insured. For an insurance of which the amount is to vary from year to year, you need only multiply the unit for each year by the amount to be insured in that year, and add. For a term insurance, you need take only the units for the years included within the term. For a de-

ferred insurance, you will begin with the unit for such future year as may be fixed upon for the beginning of the insurance. It might even be possible in this way to fix a single premium for an intermittent insurance, ceasing at one time and beginning again at another. No one has ever actually calculated such a table of insurance units;* the idea of which I introduce on this occasion merely to indicate what might be done, and to show how simple and intelligible the theory is in reality, if we choose to look at it in this way. The usual mathematical formulæ give the same result with less work.

The actual calculation of each insurance unit would not be difficult. For example, if the present age is 40, let us see how we may compute the insurance unit which consists of the present net single premium to insure one dollar payable ten years hence in case death occurs during the tenth year. Let us suppose that the table gives 962 persons dying in the tenth year hence out of

*Since this address was delivered, the writer has been informed by Mr. Walter C. Wright that the late Elizur Wright once calculated a partial table of this sort, which still exists in manuscript. There is of course nothing new in the quantities here called "insurance units," with the use of which in computing single premiums for uniform whole life insurance actuaries are generally familiar. The object of giving a name to them at this time is because of the suggested use of the same units for all kinds of insurances, a suggestion which is probably novel. A similar remark applies to the "value units" subsequently introduced.

78,106 persons now living at age 40 and that the assumed rate of interest is 4 per cent. The tables of compound interest show that one dollar ten years hence is worth $67\frac{1}{2}$ cents to-day. To provide a fund of \$962 payable ten years hence, at the rate of one dollar for each death, we have merely to discount this \$962 for compound interest, by taking $67\frac{1}{2}$ per cent. of it, and then to divide this discounted value among 78,106 contributors. The general rule for calculating insurance units is therefore to discount the fund needed at a certain future period to provide one dollar for each death in the last year of the period, the discounted value so found being afterwards divided by the present number living.

You will also need a table of what we may call "value units." What I call a value unit is the present value of one dollar to be paid at a given time in case the insured is then living. In this case the future fund, comprising one dollar for each person then living according to the table, is to be discounted and divided by the number now living. Such a table of value units enables us, for example, to get the present single premium for an endowment payable at a certain age, and if this be added to the single premium, for insurance meanwhile, we have the total single premium for an endowment insurance policy. Or, if the

plan contemplates the payment of different sums to the insured at different times, in addition to the insurance, the table of value units enables us at once to pick out the items which go to make up the single premium for the entire contract.

CALCULATION OF ANNUAL PREMIUMS.

One of the chief uses of such a table of value units would be to find the present value of future net premiums. If a net annual premium of one dollar is payable in advance, and one dollar annually thereafter during life, the present value of all these future premiums can be found by adding to the first dollar the value units for one year hence, two years hence, and so on to the end of the table, unless the premiums are to stop after a certain fixed number of years. Let us call the present value of these future premiums, whatever the premium-paying period may be, the dollar factor. If we know the amount of the net annual premium to be paid on a certain contract, we can get the present value of all future premiums by multiplying the amount of one premium by the dollar factor. On the other hand, if we do not know the amount of the net annual premium chargeable for a new policy, which of course ought to be equivalent in money value to the net single premium, we can find the annual premium by divid-

ing the single premium by the dollar factor. In this way it is easy to calculate premiums of any sort for any kind of policy. If the premiums are to vary in amount, the dollar factor can be made up accordingly, beginning with one dollar the first year, and picking out the successive value units for future years increased or decreased in the desired proportion so as to make up the dollar factor required. The net annual premium alone is not sufficient to enable a life company to meet its expenses and to provide against any future adverse fluctuation of mortality or interest. You must therefore add a margin or loading, the amount of which cannot vary much from the figures in general use with other companies. An established life company has various proper sources upon which to draw towards meeting its expenses, apart from the loading on its premiums. The expense of caring for investments should be taken from the income derived from the investments. It is universally agreed that whatever a company retains from the payments of a defaulting member, by way of penalty or surrender charge, should be appropriated towards paying the cost of replacing the risk withdrawn. It has in fact been laid down as a reasonable rule that the penalty or surrender charge ought not to exceed the cost of replacing the risk withdrawn. In practice it is never large

enough to cover that cost, but whatever is retained should be devoted towards that object. Again, the actual death loss ought not to be so large as the expected loss, and the difference is available for the company's needs. Sometimes there are other sources of profit, and if non-participating business is done, that also is a source of profit. A company's expenses are however not usually covered from these various sources, and the remainder of the expenses must be met from the margins on the premiums.

CALCULATION OF RESERVES.

As regards reserves, the reserve on all policies is the same as the net single premium: but from this is deducted the present value of the future net premiums receivable, if any. In this country each future net premium is taken at the amount which would be computed as the original net premium for the risk according to the standard by which the reserve valuation is made. In other countries the future net premium is often taken according to some other standard, and sometimes it is taken by making a certain deduction from the gross premium. Whatever differences of opinion exist concerning reserves, they usually depend on differences of method in calculating the future net premium. The mode of calculating the value

of each dollar of net premium is always the same.

It is necessary to compute the reserves on all policies by the same assumed standard of mortality, because the computer cannot tell which risks are still good and which impaired, and the average table is known to be a safe guide on the whole. It is not true that the real liability of a company on \$10,000 of paid-up life insurance is the same for a man on his death-bed as it is for the best risk on the books. In the one case the real liability is far larger, in the other far smaller, than the average reserve computed by the usual average mortality table.

PRESSURE OF EXISTING RESERVE LAWS.

The net reserve system has many elements of advantage, but there is one evil connected with it which it was heterodox to discuss thirty years ago, but which is now widely understood and admitted. This evil consists in the requirement that a reserve must be laid aside out of the first year's premium. I am speaking particularly of ordinary life policies, and what I have to say requires qualification if applied to any other form. It has long been recognized that the expense attending the procurement of business is so great as to permit no actual accumulation of reserve out of the first year's premium.

The risks have just passed the doctor, it is true, yet death losses will occur within the first year, and must be paid. Apart from the commissions to agents, there are other well-known expenses attending the prosecution of new business, and these other expenses are in some companies greater in amount than the commissions paid for new business. While not always strictly true, it may be laid down as a general statement that the commissions and the other expenses taken together will use up pretty much all of the first premium.

The highest living authority, Dr. Sprague of Edinburgh, called attention some time since to the fact well known in Great Britain, that the expenses of new business practically consume the first premium, and proposed that the reserve should begin to be accumulated out of the second premium. There is much to be said for this proposition, particularly in the case of companies newly organized, which have no assistance from any of the sources of miscellaneous profit which an established company possesses, such as annuities and non-participating insurances, and no penalties contributed by retiring policy-holders towards the expense of replacing the discontinued risks.

While other causes were at work, the chief cause of the universal slaughter of small companies, which took place about twenty-five years ago, was the

legal requirement of a reserve in the first year of each policy. The energies, which in this growing country might have been turned toward the establishment of new and prosperous life companies, were directed by this reserve difficulty into another channel, and a great cry arose for life insurance without reserves. Had Dr. Sprague's proposal been available under our laws, we should have heard comparatively little of assessment insurance with all its good and all its evil.

What is the remedy? The old life companies do not need one; and yet there should be no legal distinction between them and the newer organizations. As regards the latter class, at any rate, the remedy is plain. Make no attempt to enforce State valuations. Repeal all laws assuming to regulate contracts. On the other hand, require of every society absolute publicity concerning the essential elements of its accounts, including its reserve valuations. It is many years since I first had occasion to express my opinion on this subject. My advice then was given in two words, in which I sum up my advice now: FREEDOM and PUBLICITY.

W. S. NICHOLS:

In view of the brief opportunity afforded me for a preparation which has only been completed since

my arrival at Milwaukee, I am 'sure 'that I may fairly claim your indulgence for the imperfections of my remarks. No opportunity has been afforded me to traverse, even were I so disposed, the comprehensive paper submitted by Mr. McClintock. My only reference to it will be a reinforcement from personal experience of one important point he made. Nor shall I attempt any connected didactic treatment of a subject so wide in its scope as general life insurance plans, but shall merely ask your attention to a phase of this question which, in view of the character of this gathering and of the topics assigned, is not so likely to be emphasized.

I know of no better way to present the first leading thought that is in my mind than by narrating an incident which occurred some forty years ago. When Powers' noted statue of Daniel Webster was unveiled at Boston, Edward Everett was the orator of the occasion. The rain was falling in torrents and at the last moment the ceremonies were transferred from the open in front of the State House to Boston's spacious Music Hall. The whole address was masterly, but one who was an eye-witness has described the scene when the scholarly orator addressed himself to that grandest of Webster's forensic efforts, his Reply to Hayne. Everett was with the great statesman on the evening pre-

ceding its delivery. The Senate had adjourned overwhelmed with the brilliant oratory of South Carolina's foremost champion. Webster is crushed ; such was the humiliating conviction that impressed every New England man that night but one. Everett found Webster in the evening calm and even sportive, but in the morning he describes him thus : "He was like some mighty admiral, dark and terrible, casting the shadow of his frowning tiers far out over a sea which seemed to sink beneath him ; the Stars and Stripes at the fore, the mizzen and the peak, and bearing down like a tempest upon his antagonist with all his canvas straining to the breeze and all his thunders roaring from his broadsides."

The scene which followed the delivery of these impassioned words baffles description. The audience was made up from every rank in life. The learned professor and the wealthy merchant were rubbing elbows with draymen and porters, but Everett had touched the chord of their common humanity and all differences of rank or culture were lost in the general outburst of enthusiasm that greeted this resplendent picture of Massachusetts' favorite son.

Gentlemen, this story may seem to have little relation to the subject before us, but I have told it for a purpose. The secret of that eloquence which

for the nonce placed the scholar and the boor on the same footing, alike captivated by the majesty of the thoughts, was the secret of true eloquence since the world began, whether flowing from the lips of some cultured Athenian on Mars' Hill, or, 3000 years later, from some poor Logan depicting the wrongs of his savage kindred. It was the dramatic element in oratory, which, brushing aside all abstractions and metaphysical refinements, gets home to nature and makes the concept a thing of life where qualities are transformed into living men and things, that appeal to the deepest instincts of our common nature.

Gentlemen, the principle to which I am thus calling your attention, is of wide application: In other forms we may recognize it, in the general drift of all our modern methods, whether of work or study. The master minds of the day find their best text books in nature. Dull abstractions are no longer the badge of scholarship; even our little ones go to the kindergarten and are taught from Nature's open books. It is a principle, too, which has its application to business and even to insurance. Few business branches have been the subject of more refined and subtle analysis and speculative theorizing than has life insurance. We have analyzed the income and the expenditures, the assets and the liabilities; we have sought to

trace each little rivulet to its source and compute to a nicety the relations which it should bear to the common stream of which it forms a part. We have expended our ingenuity in devising formulæ and prescribing rules of co-ordinating each specific department of the business; we have dealt with it as does the engineer with his bridge when he computes the load it must bear and apportions the strain to each separate cable and girder and stay.

But I am not sure in doing all this we have not reckoned too little on the fact that a great business enterprise like this is a thing instinct with life; that behind the questions of reserves and dividends and surrender values and the rest, are those subtle features of concrete management by living men to which these are all subordinate. As in music no written laws can prescribe and no written score can indicate the soul which the master mind of a Beethoven or Mozart must create, so I conceive it is in discussing the character and standing and plans of a great life insurance office with its inflow and outflow of members and resources and obligations and claims through hundreds of scattered agencies, in every corner of the land. No analytic formula can be devised nor law prescribed which can accurately measure the real strength or weakness of such a company nor the merits of its busi-

ness methods by merely stating in cold figures on a balance sheet the various items which go to make up its resources and its obligations. Such too, I think, is the judgment of many of the best experts. It is where our whole theory of American life insurance crosses lines with the conceptions of the business in some foreign parts. We have emphasized the cold figures which are supposed to show the resources and the strength ; we treat it as it were by dissection, separately weighing each portion on our artificial scales as though it were a *dead* cadaver. The foreign expert rather views his company as a thing of life with vitalizing forces coursing through its veins, striving to repair the waste of disease and give strength to feeble parts. I believe that the business and the plans of a great life company should be studied as the physician studies and diagnoses the living man, rather than as the mechanical engineer computes the factors of his lifeless bridge. No mere rules of rhetoric can teach us to create the masterpieces of Everett or Webster or Hayne ; nor slavish obedience to the laws of music to reproduce the works of a Haydn or Mozart. Neither can the mere slavish application of life insurance rules enable us to thoroughly gauge the elements which enter into the management of a successful life insurance institution. Every company has its own individuality and its

own special lines along which, like a thing of life, it moves on to success or failure.

The point I am aiming at in all this, must, I think, be obvious. I am delimiting the sphere within which the mere analysis of life insurance figures are to be treated as sufficient tests. No matter what may be the personal element involved, success must lie in a reasonable conformity to well-established principles—this all must admit. I am not seeking to undervalue the usefulness of the most searching analysis to which the business of a company can be subjected, but simply raise the question whether cold examination of the empty figures apart from the living company of which they are the product, can always tell us the story. Let me illustrate. If I am correctly informed, one of our oldest and largest life insurance institutions in its early days had, through the lack of actuarial skill by its management, been brought to a condition of technical insolvency. Fortunately there were as yet no rigid laws nor supervising official powers to take cognizance of its condition. Its affairs were in a state of youthful vigor, and, left alone, Nature quietly healed the wound without a scar. How different might have been its fate if some official judgment had been pronounced against it on the mere strength of the figures. I have in mind too, the early struggles of another

great institution at a later date. It was an experiment in its way, and at the start commanded little confidence or support outside of the few master minds that were planning its course and shaping its policy. Year after year its development was a depressing work. Any rigid analysis of the figures might have shown the ear-marks of a swiftly approaching insolvency. Its friends had deserted it. A laxity of Department rules permitted its real condition to be partially concealed by allowing as assets items which would now be debarred. That was the salvation of the company. The men who were directing it saw ahead, as the onlookers could not, where their plans were leading, and while those onlookers were waiting for the end that institution had quietly turned the corner and begun its triumphal march to one of the grandest successes in its line.

My point is this, that plans or conditions which govern the success or failure of a life insurance company must often be sought for beyond the mere figures of an official report, and no judgment based on such figures can be complete that takes no note of what I choose to call the vital elements of a company. The sculpture may be as perfect as the chiseled marble of a Phidias or a Praxiteles, and yet as cold and lifeless as a corpse.

Now, permit me by aid of another illustration to

lay before you my second thought regarding life insurance plans. From the days of Pythagoras down to the present, the world has been occupied with warring schools of philosophy searching for the ultimate foundations of knowledge. No school has agreed with any other. Hegel and Descartes and Locke and Spencer and the rest have each had their admiring followers, and the unsympathetic onlooker is tempted to exclaim, "A plague to all your Houses." You are pursuing a phantom in an idle quest for truth. Not so; the philosophy of every age and nation is simply the reflex of its own peculiar thought and character. The truth for which they are searching is one, but many-sided; and every age and people is but picturing the side which presents itself to them. So is it regarding life insurance plans. Each company has its special features, its special policy forms, which it urges in preference to any other. But the want which they are aiming to supply is many-sided. The policy or company that is the best for one may not be the best for another. There is no such thing in my opinion as a best policy and a best company for every man alike, and a greater disaster could hardly fall on the business of life insurance than the setting up of a faultless model after which every institution must be patterned. Life insurance, like philosophy, is art as well as

science. As well might we demand that because the Parthenon was the most perfect of its kind, all that is grand and noble in the Egyptian temple and the Moorish mosque and the Gothic cathedral shall be cast aside in favor of the Doric order.

My third thought is an outcome of my last. You all know the story of how our early companies had to struggle with the popular prejudice against a business which seemed to savor of gambling with human life. You remember how the jurist and the moralist have joined forces with the special pleader in the past to explain that the gambler and the underwriter have no common ground except in the mathematical laws which govern the operations of both. You know, too, that the controversy is not yet dead, but that insurance plans and policy forms that savor of speculations are often condemned as detracting from the purity and lowering the morality of the life insurance principle. I am no advocate of gambling, but I believe that deep down in human nature is the gambling instinct, finding in the uncertainties of the outcome an added zest both to business and pleasure, and that to do away with speculation would destroy all social and economic progress. The greatest curse perhaps that could be inflicted on humanity would be a revelation of the future, deadening the hopes

and blighting the expectations which now rest in ignorance. I know no reason why within proper limits this instinct should not be utilized to make life insurance attractive. If forms of policy which unite the element of speculation in proper subordination will appeal to a class whom life insurance in its purity would fail to attract, why should they not be won as our fathers built their churches and their roads, by appealing to the universal gambling instinct? Some years ago I was called on to oppose a most nefarious bill aimed at the life insurance interests. On the legislative committee having it in charge was one who was reckoned the prince of the gambling fraternity in his State. I looked on him as our worst opponent; but he listened with increasing interest as our story went on—gradually the light dawned on him. “Why, gentlemen, your business is a gamble, but you are playing fair and I am with you.” And he proved the staunchest friend we had in that whole legislature. We had appealed successfully to his gambling instinct.

We often find a healthy corrective for the artificial conditions which surround us, in comparing our views with those which have prevailed in earlier times. No man has stood higher among the early writers on life insurance than Augustus De Morgan; in his essay on probabilities he dis-

cusses the nature of an insurance office, about which there were very imperfect conceptions even by the courts. To the mind of this prince of English mathematicians, the germ of the insurance company was the savings bank, and the office itself was but an adaptation of the banking system to the equalization of the interests of the depositors. We have but to impose on depositors a covenant that each shall proportionately contribute during life, that the deposits shall remain untouched adding interest on interest until all are dead and then a pro rata distribution be made, and we have to all intents and purposes an old line life company. This was De Morgan's conception of the insurance office, a modified bank. We on the contrary have dissected the business and are disposed to look on the bank as a foreign attachment brought in in the effort to modify the simple insurance office. To him the business was an entirety. To many of us it is a legitimate insurance plus an accumulation annex whose functions and legitimacy are bones of contention.

Again, I am not seeking to undervalue the importance of analysis, but I believe that the business should be studied as a complex and vitalized unity rather than as an artificial union of diverse complexities, and that the full idea of our insurance office as to its plans and methods is only

realized when we approach the subject as did De Morgan, from a communistic stand-point, and look on it as a practical device for sharing accumulations. I will make but one more point in this connection—the limitations of our existing life insurance plans. We have exercised untold ingenuity in adapting the benefits to the varied wants of the applicants ; but our adaptation of the costs to their varied conditions has been restricted to narrow limits. Practically we have but one standard measure of cost for the general life office, the normal mortality of healthy entrance according to age. That this is a very imperfect measure all must admit. No industrial office would dream of basing its premiums on an ordinary table without a loading that would supply the deficiency. Every company knows that next to age, the occupation of its healthy members is the most important element in their risks. If our business was like that of almost every other known branch of insurance, a matter of annual or short term risks, I believe that the defect, if we may call it so, would have been corrected long ago, and the applicant would have been judged just as the accident underwriter judges his applicants, or even as the fire underwriter judges of his buildings, on their own individual merits. But because the life insurance is *sui generis*, because it is a unity running for long years or for

life, with every element entering into the risk subject to change, except that of death, and because the terms must all be settled at the start and sure provision be made for a distant and uncertain future, we have the anomaly of this great branch of insurance ignoring every element of the hazard but one in the formulation of its plans. The reserve element of life insurance has thus far constrained us to deal with age as the single factor in the risk. Thus our seeming defect becomes rather a necessary limitation, surrendering somewhat of the principles of equity to insure a strength and stability of vastly greater importance. By ignoring in our plans and methods every element of a risk but that of age we have secured a degree of certainty in our results, and a simplicity and unity in our plans, unknown in any other branch of insurance.

But I question whether, with added light, the time may not come when other factors than that of age may be dealt with and greater equity be secured without the sacrifice of other elements. To-day our general offices, with few exceptions, recognize but a single class of applicants, the healthy lives. All that large body in the community which makes up the under average, and the impaired who need insurance even more than the healthy, are barred. The ideal company is one

whose plans let down the bars and, in the language of the preacher, make salvation free to every thirsty soul. In such a company age will be represented by a group of premiums which the medical examiner must apply. This ideal office may never be anything but a dream, but as a practical question it is worth considering whether our existing methods cannot be enlarged in that direction. When Professor Benjamin Pierce gave to the mathematical world his profound conception of what he chose to denominate lineal associative algebra, a calculus in which even the limitations imposed by quantity were abolished, and Hamilton working in an opposite direction, conceived of quaternions, in which new and unheard-of limitations were imposed on our familiar ideas of quantity, both in diverging lines were enlarging our conceptions of the ideal calculus, and were demonstrating a principle broader than mathematics and true in life insurance, that the removal of limitations is essential to the ideal fullness and perfection of the scheme, while the imposition of needed limitations may broaden its practical usefulness and scope.

I shall close with a brief reference to the second division of our topic, the question of reserves. As some of you know, I was requested, as a delegate to the recent international congress of actuaries at Lon-

don, to discuss the limitations of the net valuation system, a subject which had been originally chosen by Mr. Sheppard Homans. That discussion led straight up to the question what reserve should be exacted of a life insurance company. I shall confine myself here to a single phase of that question. We all know that business conditions have radically changed in recent years; that with the growth of competition and wealth, liberal expenditures on narrow profit margins have become a general law of trade. It seems to me idle to expect that life insurance should be an exception to the law. I regard the demand that a progressive company should write new business without technically loaning the credit of its older members, and should put up first year's premiums out of first year's reserves, as a quixotic dream. I will cite a single illustration that I there used, the case of industrial insurance in which commissions are commuted by the purchase outright of the business from the agent; and, so far from being able to put up first year's reserves, several years must elapse before a consolidated debit will enable the company to make itself whole on its investment. The whole theory of this business is opposed to our popular views regarding the procuring of new members at the temporary cost of the old, but will any one question its soundness? It is a necessary con-

comitant of the only conditions under which industrial insurance can be done. It rests on two assumptions, that a going company must have new business, and the members as a body will profit in the end from the investment. I know of no reason why these same principles should be illegitimate when applied to ordinary insurance on the mutual plan. The simple questions are, does the company need the business, and can it profitably advance the cost of procuring it?

I do not think these questions are fully answered when we have simply determined whether new business will reduce the dividends of existing members. Suppose it could be conclusively shown that every existing policy-holder would receive larger dividends if no new members were added and the surplus was all divided among those who remain; would that justify a complete abandonment of new business and the ultimate winding up of the company? I conceive that a life insurance office is something more than the mere property of those who may claim at any time to be its members; that it was chartered and intended to be a permanent economic institution for the benefit of those who may hereafter join, as well as for those who may now chance to hold its contracts, and as such is obligated to perpetuate its own existence. If I am correct in this, and business conditions

have so shaped themselves that new membership involves a loan of funds to make good a technical demand for first year's reserves, it would seem plain either that the loan should be made or that the demand for such reserve should be modified when safety and equity will permit.

Valuation in any form is but a means to an end ; there is no one prescribed method which is superior to another for all purposes. The questions of solvency and equity which it is employed to determine, can sometimes be more completely answered by one method and sometimes by another. So long as substantial equity and solvency are not endangered there is every reason why our existing methods of valuation should be modified to meet the requirements of the business. Dr. Sprague, the leading actuary of Great Britain, both in various papers before the British Institute and before the International Congress at Brussels, has advocated a method of valuation which should allow for the expenses of the first year's business. Mr. Homans, in the last named Congress, proposed a formula by which the usual net valuation should be applied only after the first year, and I further extended that formula at London to succeeding years, thus distributing the expenses as in industrial insurance over a wider range.

But there is a simpler method of reaching that

same result under our existing laws and one which has of late been growing in favor, that of making first year's business term insurance by the contract itself. This may seem to some like beating the Devil around the stump, but the question of its propriety in my mind rests simply on the question whether the practical necessities of the business as they exist to-day, demand it. The theory of our usual valuation method ignores the cost of new business; but it exists as a stubborn fact, giving the lie to our theory and demanding recognition. "While other causes were at work, the chief cause of the universal slaughter of small companies which took place about 25 years ago was the legal requirement of a reserve in the first year of the policy" says Mr. McClintock.

Gentlemen, these random remarks are not without a certain coherence in emphasizing the vital unity of this business. I am not seeking to assail popular views, nor in directing your attention to the personal element which enters into every proper estimate of life insurance plans, am I disputing the fact that no personal ability can make amends for wrong plans and methods. I am putting in a plea for flexibility rather than rigidity in the application of the rules by which those plans are judged. I am urging the importance after all our analytic work has been done of co-ordinating the parts and

judging of our institution as a synthetic whole. The true test of a company, no matter how perfect in theory, must be the practical workings of its system, and those practical workings must depend upon the master minds in control.

When nearly 30 years ago that great fire in a neighboring city brought ruin to the doors of so many American offices, one great company, though denuded of its resources, was prompt to proclaim that every loss should be paid in full, and its representatives were boldly sent from claimant to claimant adjusting its liabilities and merely extending the time of final settlement. Others followed in its footsteps. By every rule of bookkeeping those companies were financial wrecks. But most valuable of their assets were their splendid reputations and the men behind who had helped to create them and were directing their affairs. In the hands of those men their franchises were their working capital. The plans that they so boldly inaugurated were not down in the books, but the planners foresaw the outcome. Public confidence in those offices rose higher than ever before, new premiums poured in like a flood, and every payment was met. Like some veteran chess player they had sacrificed their queen to save a check-mate, and had won a masterly position. This is what I mean by the vital element that inheres in life insurance plans.

The world owes much to those subtle intellects who have analyzed our mental processes and have explored the mysteries of our concepts, our judgments, our emotions and our wills, but to the true philosopher it is the one living mind which thinks and feels and wills, as occasion may require.

Life insurance is more than a private enterprise. Like the work of the common carrier it may be said to be impressed with a public trust. The State has not granted chartered rights to be exercised for the selfish benefit of any single, passing generation, but that those which may follow may share its benefits in such varying forms as the changing needs of the public may demand. Utility, safety, equity, persistence ; these are the central features of every true life office, towards which all its plans, no matter how diverse, must lead.

You, gentlemen, have assembled as State officials, with a programme drawn up in the line of your familiar duties, as analyzers and investigators of life insurance management, but I have ventured to emphasize the controlling thought which directs alike the rhetorician, the painter, the sculptor and the architect, the essential unity and vitality of their finished work.

SPECIAL FEATURES, DIVIDENDS, SURRENDER VALUES, ET CAETERA.

JACOB L. GREENE :

I DO not propose a technical discussion of the formulæ by which the assumptions on which premiums and reserves are founded may be reconciled to experience and to varying administrative treatment of the commercial elements of life insurance as a business ; but rather to deal briefly with the clear and unvarying principles which must govern any such attempt, unless something else than principle is to govern. When we put numbers for things and, positing them at will or at the dictation of shifting circumstance, deal with the numbers according to their own laws of combination, mere mathematical morality is quite apt to put itself at the fore and cast a cross light on the relations of things. The discussion of fundamental principles is never unprofitable. A clear, seeing look at the plain truth of things in their

natural arrangement never fails to correct and confirm our grip on duty in our administration of it.

The first item of the subject assigned me implies that its included topics are to be treated from the point of view of mutual life insurance. They are the details of the adjustment of the necessary assumptions of things uncertain to the after ascertained certainty. They are the after correction of assumptions of experience by the application of the facts themselves when they have been made known by actual experience. The assumptions approximate facts sufficiently to allow the undertaking involving them to be begun ; the function of the special feature is to import the actual facts backward, and substitute them for the assumption, making the undertaking entirely veracious. Blackstone says that Equity is the correction of that wherein the law by reason of its universality is deficient. The assumptions on which our computations rest, being only assumptions, are necessarily the universal and undeviating ; by special features we transform the universal assumption, to which yesterday, to-day and to-morrow are all alike, into the particular present fact, and make it do equity to yesterday and to-day, and to the deviations of each varying to-morrow when it shall have lapsed from the prophetic into the historic era. The ideal

of mutual life insurance is contained in our assumptions only as is the perfect statue in the rough chipped outlines of the half-wrought marble ; the special features should supply the workmanship by which the completed beauty of the artist's conception stands perfectly revealed.

The test of the special feature is therefore its integrity ; that it be the true incidental of the imperfect fundamental, and the necessarily implied corrective and supplement of its imperfections ; that it be not arbitrary and factitious, but the natural, self-contained means whereby the imperfect assumptions are made to realize their ideal, the perfect truth of intention in the scheme into which they are built.

To find the truth of the incidental, or, as it is here called, the special features, we must therefore look straightly at the nature, intention, and defects of the fundamental: what is it for ; what does it propose to do ; what relations does it seek to establish, between whom, for what reasons, to what end, and how determined ? For these are the things in which the incidental must help out, correct and perfect the fundamental, or else it is false, and is no longer incident to the fundamental, but becomes an arbitrary and wholly unrelated element, thrust into or parasitically imposed upon it for some special purpose foreign to the funda-

mental intention, which is so far nullified and therefore perverted.

And let us first note one great, comprehensive, oft-forgotten fact ; all human enterprises deal apparently with or through things ; the things dealt with are always in sight, always being handled, and to superficial view are the essential matters in transaction. But in reality it is not the things handled which are the true subject matter dealt with ; it is the human relations to those things : it is, on the one hand, the human needs of the things, and, on the other, the human efforts to produce, provide, and supply them to those needs ; it is the human rights and relations which grow out of all these needs and these resultant efforts directed toward their relief : it is humanity itself in its constant and universal interaction of need and service that is the subject matter of all our efforts and enterprises. It is not the ponderables of trade that are of its essence : it is the service of human needs ; it is not the things weighed, measured, noted, tabulated, combined, and shifted in cunningly devised equation ; it is living flesh and blood, in its hoping, fearing, laboring, loving, suffering personal units.

Here, then, let us fix our point of view. What is mutuality in life insurance ; what does it propose to do ; for whom ; and how ; and why is its

method built up to carry and apply to its clientele the principle of mutuality and to realize it for their benefit ; and is the benefit a gratuity and of whose grace, or a right and by what title ; what part in its purpose and necessary to its perfection can the incidental or special feature effect ; what is the necessity for any features whatever outside its technical elements ; what defects inhere in the application of these, and what is of the essence of their correction ?

Mutual life insurance sees these things ; the productiveness of the life of the husband and father of a family ; the dependence of the family on that life ; the uncertainty of its duration ; the material calamity involved in its loss ; the constant hazard of its loss resting on the dependent family ; the inability both of the life and of the family to defend against it ; their consequent need of protection against it by the transfer of the financial hazard to some one always and adequately prepared to meet it ; the imperative duty of the husband and father to procure that protection for the family which he has created in helpless dependence on himself, and seeing these things, it comes with an eye single to his help, appealing to his conscience and therefore pledging its conscience to deal with him in truth and equity. Setting before him his family's need, his duty and his insufficient ability, and its own

sufficient ability, it demands of him to put his family and himself into its hands; that he give to it his means, that it may therefor give to them the maximum of protection due them from him, but beyond his personal power. Life insurance deals solely with the duty of a man to his family. It proposes itself to him and to them as his proxy therein because it is the only entirely reliable and sufficient doer of that duty. That is the reason of its being, the inspiration of its motive, its own singular function, the ground of its morality and the test of integrity in its every method. It is to deal with the family, remembering that it has put itself in the father's place; it is to deal with him, remembering that it has persuaded him to confide to it this his supreme duty and therefore its supreme trust; that therefore it must come to the most effective possible help of each and every man whose duty it has assumed; to help him, and not to trick him through any of his limitations whether of knowledge or of ability.

Mutuality is imported into the operative methods of this great scheme in order to give to the expenditure of the husband and father the greatest possible effect for the protection of his family: to make each member pay to the company only the actual current cost of his risk to it, in order that each dollar he does pay may give the greatest pos-

sible amount of protection : in order to give to the attempted performance of his duty the highest possible efficiency. Because of the greatness of the family's need and because of the limited ability of the husband and father to meet it, mutuality comes as an unselfish philanthropy and promises to do the business at bare individual cost.

The fundamental thing in mutual life insurance is therefore not the materials with which it works, which its technics weave into operative methods, but the human relationships to which it addresses itself ; the human duties which it assumes for others, the disinterested help therein which it proposes, and the rights which it thereby gives to others.

From this standpoint let us take our material and deal with it in the morality of such a conception.

The problem of life insurance is to give with certainty, to a proper beneficiary, an agreed sum of money on the failure of a certain life, for which undertaking it must receive an adequate premium. The first question in the matter is the adequacy of the premium, the elements of which can never be precisely measured beforehand. Mortality, expense, and interest are constantly variable factors ; their variations are incapable of previous demonstration ; administrative control over them is limited.

In the absence of exact foreknowledge, with the certainty of variable experience and that no group of experiences will precisely reproduce any former group, we can use as elements of our premium calculations only that general knowledge of the included facts which is the average of their observed history. We assume that this history will repeat itself substantially and subject to those modifying causes only whose operation we can foresee and measure within a safe margin for which we can make sufficient allowance. But since allowance for continual and uncertain fluctuations must be made, we can secure absolute certainty only by an excess of caution in our assumptions; we must be reasonably sure that we are somewhat overcharging, or we are not reasonably sure that we are charging enough. Thus life insurance solves its problem of certainty by bringing into its uncertainty an admitted overbalancing error whose exact determination and proper correction must be left to experience. The continuous problem of mutuality is the continuous correction of that constantly operative error and the detailed adjustment of the correction to the individual payments of the membership.

The reason and intent of mutuality in life insurance are rooted in the appeal to conscience and the offer of assistance in duty. Pleading the family's

need and the father's inability, and offering its service to solve the dilemma as far as possible, it sets itself to do equity : equity to those for whom it pleads, and equity to him whom it rouses to conscientious action in their behalf. As it calls him to unselfishness, it must be itself unselfish, with an eye single to the benefit both of its wards and its co-contractor. It proposes, as its peculiar part in giving his family their protection, to make him pay only its actual cost, without profit to anyone at his expense, and, compelled to guess, however intelligently and closely, what that cost will be, and to stipulate for too high a premium in consequence of its inability to do otherwise than guess, the primary problem in equity and good conscience toward him is the constant ascertainment of the actual current cost of the insurance and the as constant correction of the deliberate overcharge. That is what mutuality is for : to give to each member his insurance at its exact cost to the whole membership. What in a stock company would be annual profits for the stockholders, is annually to go back to the members of the mutual company in order that they may in reality pay only what their several risks have cost ; and mutuality between the members is accomplished when and only when each individual member is made to pay just his ratable share of that cost proportioned to

his risk : his actual ratable share in the losses and expenses incurred and in the necessary reserve. This is accomplished by so-called dividends. A dividend system which accomplishes this is a true one ; a dividend system which fails in this is false to the principle of mutuality, and, in a professedly mutual company, becomes an instrument of exploitation of some of the members for the advantage of some other of them, putting the favored ones, so far, essentially in the relation of stockholders with the privilege of making a profit out of the rest, and so utterly destroying the mutual relation and making it a snare to the unwary.

A dividend system which is true to the purpose of mutuality, which makes it a fact and not a false flag, must put each member at the end of the year in the same position as to his premium payments that he would have been at the beginning of the year had exact foreknowledge been possible. If we knew exactly what mortality, expenses and interest are to be, we should know to a cent what the yearly premium must be ; we should exact only that, and the problem of mutuality as related to cost would be eliminated. As these things are of annually changing experience and can be known only at the end of each year, only at that time can we know what was the exact and necessary premium for that year. Then we do know. Mutu-

ality has promised to take only that exact and necessary premium ; to take from each only his exact share of the whole cost ; which can be accomplished only by returning to the member at the end of the year the sum by which the assumed or nominal premium paid is proved to have exceeded the exact premium necessary to meet his share of the year's experience in the several elements of cost.

There is one qualification to be put upon what has been said. There are abundant and controlling practical reasons why a company should never divide its entire surplus : why it should always have on hand something more than the equivalent of its exact liabilities : why it should have a fund over and above these, which efficiently serves both a protecting and a steadying purpose in the satisfactory administration of affairs, and each one's share in which may safely and fairly be left to be paid with his policy at maturity, having meantime served him and the whole membership alike. But the undoubted practical value of such a temporary and comparatively small accumulation of undivided surplus in no wise negatives in any point the propositions here made.

In form, the dividend problem is the determination of each one's share of a total yearly over-payment. In fact, it is essentially a determination of

each one's share of a total yearly cost. This is the true view-point ; mutuality promises actual cost. It deals with a constantly changing yearly cost.

In detail, the operation is the ascertainment of the actual mortality, the actual expenses, and the actual rate of interest earned, and the apportionment of that mortality and those expenses to each member, and the appropriation to each of his share in the surplus interest, proportioned to his contribution to the reserve.

That this should be done every year, unless for some reason affecting solvency and requiring a suspension of normal procedure, is an obvious matter of course, since only so can mutuality be effected ; and there would be no need to assert or defend the propriety and necessity of annual dividends in a well-established mutual company, did not professedly mutual companies assert and practice the contrary, for reasons growing out of abnormal conditions of their own creation.

An annual premium is constructed and is paid to cover an always changing annual cost ; that is, annual mortality, annual expenses, and the annual contribution to reserve. These things are, and must be, annually determined after the fact ; and, being so determined, there is no reason, in the nature of things, why the known annual overplus of an annual premium should not be at once

returned ; and only so can the mutual policyholder have his insurance at its constant, actual, annual cost, which is the very pith and substance of mutuality.

But in many companies the early cost of business has been allowed to largely outrun the provision for expenses contained in the premium ; so largely that for several years the excess of expense over that provision swallows up any saving from mortality and any interest gain ; indeed, it swallows up the portion which should go to reserve, and so there is no saving made and no interest earned, and the money paid by older members has to furnish the reserve for the new.

Under such conditions, where in many instances the cost of the business and the cost of the risk are allowed to far exceed the premiums collected for several years, there can be no overplus for division for a long time ; and when any does begin to accrue, it will be relatively small. It is this situation which has developed the several forms of "Postponed Dividend" schemes, all of which have before them a three-fold problem : (a) to reconcile the membership to the postponement of a dividend until there is something to divide ; (b) the concealment of the relatively small amount of surplus legitimately accruing, which is attempted by limiting the number among whom division is to

be made to those only who shall survive the period of postponement and keep their policies in force ; and by forfeiting to the surplus any overplus that has accrued on all policies ceased meantime, whether by death or lapse, together with a considerable part, and in some cases all, of the reserve on lapsed policies ; (c) the maintenance, in all this, of some shadow of mutuality. It was hoped—and the lapses of these companies in the past justified the hope—that the deficiency of surplus caused by a high expense account would be largely replaced, and thus concealed, by the many forfeitures ; that the consequent dividends to the few who remained to get them would be so large as to simulate, and even apparently exceed, the results of a prudent but really mutual management ; and that the chance of sharing in the forfeitures of others would blind the eyes of the many to the utter reversal of mutuality which these schemes perpetrate.

It would be exceedingly interesting, did time permit, to review in detail the failure of these schemes to realize their prophesied results. The vice of extravagance which caused their invention has grown by what it has been fed upon ; and only in one point has it met expectation ; the hope of sharing other people's forfeits has been a much stronger bait for business and for agents than simple, clean

mutuality conjoined to sober, humdrum prudence ; and those who have rested their faith and based their offers of service to the public on these undying but familiar and rather uninteresting verities have had to fight for life. They would find no fault, however, either with their position or their chosen task, were not the things they fight against, and which traverse every principle and destroy every result of mutuality, done by professedly mutual companies in the name of mutuality ; the mutuality of the shearers and the shorn.

In this connection, but under the "*et caetera*" head of my subject, I must note another outgrowth of progressive extravagance, intended to legitimate that extravagance and to incorporate it into the very structure of the legal standard of solvency and of presumptive sound practice, and to help out the failures of the "postponed dividend" schemes. I refer to the growing practice of so framing a policy contract that the annual premium for the first year is treated, not as the first of a series of like payments, but as an one-year, stock-rate, term premium only, calling therefore for no reserve at the end of the year, and thus allowing, or rather offering that entire premium to be used up for expenses, without anything expected of it for either reserve or surplus. No franker confession could be made of the extent to which the expense of

management has been allowed to go, nor of the grip it has got on the managements which adopt the device. And it carries on its face that eternal and world-wide distinction between a true practice which is self-limiting and self-protecting, and therefore conservative, and a false practice which is a concession to a vice. There is no principle of self-limitation in it. If a vicious competition has called for one premium to be given up to its consumption, and demanded a reconstruction of the contract and its treatment, the way has been shown and set wide open for it to call for all that ambition may require, and to demand that the whole future of life insurance shall be founded, legally and practically, upon the tossing seas of competition, and established upon the floods of a growing expense account, under exigencies of a competition whose severity will never relax toward those who forever yield. As one of the accomplished advocates of this scheme has said, "the only limit to it is what the public will stand." Unfortunately for the cause of public enlightenment, the average Yankee business man hates to make public confession that he has been "done"; and prefers to let his innocent neighbor get the taste of the fruit of the tree of knowledge by eating it himself. Meantime those who will not follow in this train must t such sober joy as they can out of the firmly-

held fact that the truth remains always true. Devices to evade it simply prove it true.

SURRENDER VALUES.

When we come to consider the matter of surrender values from the point of view of mutuality, we meet a situation involving opposing elements. The company has agreed for a certain premium to carry the policy for the lifetime of the insured or for a definite term of years, and, the premium being paid, it has ordinarily no option of discontinuance. Its calculations rest, and must rest, on the theory of the continuance both of its risks and of its premium income to their normal term. But it protects its theory by no contract to that effect from the insured. He is free to pay or stop paying, regardless of his family's need on the one hand, or his ability on the other. For any reason he stops. What considerations of duty should govern the company in its treatment of the case? To whom now does it owe duty; and, if to more than one person or group of persons, upon what several interests of these is this duty grounded; by what divergence of these interests or by what conflict between them is duty toward one or the other of them controlled or modified; which group is entitled to have its interests first considered?

There can be no question that the company's

first duty is to those to whom it remains under contract obligation—its continuing policy-holders. It is first to consider how they are affected by a withdrawal of one of their number ; how the sure basis of its operations, the solvency of its contracts, and the future cost of their administration stand affected. The elements of the problem are definite ; the determination of their weight, the measurement of their operative force, is somewhat a matter of varying circumstances.

The effect of withdrawals is in three directions : They reduce numbers, thus narrowing the basis for averages, increasing the range of fluctuation, intensifying its effect and prejudicing steadiness of operation ; they presumably take out not only unimpaired lives, but the best lives, at least those having the strongest unconscious instinct of an enduring vitality ; while this may not be and is not always the case under ordinary conditions inviting continued confidence, it would be unsafe to predicate any treatment of them upon any other assumption which there is no after opportunity of rectifying, an assumption which would be realized to an appalling degree under conditions which impaired confidence in corporate integrity ; and, thirdly, surrenders for cash interfere, and may conceivably very seriously interfere, with that employment of the funds of the membership which is

of the essence of financial stability and a most important factor in the reduction of current cost to continuing members.

On the other hand, it is to be borne in mind that in withdrawing the past member has exercised an unforbidden power, and that during his membership he has not only paid the current cost of his risk, but has also been making annual contributions to the reserve for the purpose of protecting the company against the future of his risk: a part of his increasing share in a future greater mortality contributed now because he is in theory expected to remain to share it without paying a correspondingly greater future premium. Against the greater future risk on his life as age increases the company has been laying aside each year a compensating sum out of a level premium. And now that future risk is eliminated by his termination of what was, at his option, and in the company's anticipation, a lifelong contract. The company is relieved of all liability for that future risk against which it has been reserving a sum from each premium paid.

The question now is: What in all-round equity—equity to him who has relieved the company of further liability, and equity to his associates from whom he has withdrawn the supporting vital and financial strength of his membership—shall be



done with this man? How shall these dual elements of a situation which the company has left it in his power to create be held in just and true balance?

In general terms, the answer is and must be: Do that which at once recognizes fully his free and legitimate right of withdrawal and the termination of the liability, but also that which is thoroughly conservative of every right interest of the membership from which he has withdrawn his support, of every interest, that is, which he, while a member, had in common with the rest.

If the withdrawal of members at any time, at discretion, did not affect the vital basis and therefore the sureness and steadiness of the company's operations, and did not so tend to introduce violent and dangerous fluctuations; and did not such withdrawals also tend to disturb and, under clearly probable conditions, to very seriously disturb those lines of financial management which the greatest good of the whole membership necessarily presupposes; and did not the duty of men to protect their families, which is the whole ground and aim of our proffered service to men and the reason for our existence, remain always the paramount fact and our primary point of view, and the one which should govern our treatment of every detail, and which gives to us the same plea to urge upon

the old member for his continuance that we use in soliciting new members, and also lays upon us the duty to do what we justly and fairly can to see that those families which have been once committed to our care and sure protection are not lightly and easily exposed again to danger through any practice of ours, there would be no problem in the matter. We could freely give the departing member everything left from his past transactions with us. But every one of these propositions must be taken in the negative and taken seriously. The membership is the company, and the withdrawal of members narrows the basis of operation, and so widens the range and intensity of fluctuation, and may be carried so far as to be destructive of a company's integrity. The company's investments are of funds held for a future; they must be made with a view to that future, and therefore of a character very different from those adapted to meet sudden and uncertain demands for which instantly and certainly available resources must be always in readiness. The scheme of life insurance proposes that its invested reserves shall be drawn upon only according to the foreknown and measurable operation of the law of mortality. The right of members to withdraw at any time, taking their contributions to reserve in cash; negatives the whole scheme, exposes the fund to be drawn upon at will, the draft

upon it being, both in time and amount, dependent upon elements of motive which are unforeseen and incalculable, and of whose future operation nothing is known except that they exist, that they may be brought into great and most critical intensity of operation at any time by a variety of causes, and that they are uncontrollable by the company and have absolute free play against it. There is no defense against them except the blind hope that they may never operate.

The right of free surrenders for cash inverts the theory and the only consistent, logical, and safe practice in life insurance, by making the reserve consist in effect of a mere group of individual deposits, subject to check at least once a year, and this feature of uncertain and precarious continuance of the insurance factor and of the right of withdrawal of invested funds, becomes at once the dominant feature of the company's affairs and is the ultimate contingency to be kept always in view in every matter. The company, in effect, is no longer a life insurance company, treating all its affairs on a true life insurance basis, with withdrawal as a mere incident, subordinate in every respect to the integrity of its insurance operations, but a pseudo bank of deposit, liable to have all its funds withdrawn in any year, needing therefore to have its investments immediately convertible into

cash without loss, while yet upon these funds are founded the presumably lifelong contracts for whose prosperous administration an entirely different theory of investment is essential and for the management of which a bank is utterly unfit.

So long as a company is rapidly growing and the average of its lives is still at a young age, and it has not reached that maturity necessary to complete its exposure to all the vicissitudes of mortuary and business experience, and its credit has escaped attack, the practical danger of these subverting factors will be at a minimum and their operation partly concealed, and hope may dwell in a fool's paradise. But the condition of growth is not an eternal one, no matter what energy, under what stimulus, be applied. To every company will come, ought to come, in time the condition when no pressure can make its inflow of new business exceed its outflow, and when its true normal will be a stable equilibrium in amount at risk, in assets, income, and outgo.

Consider a company in such a case—whether large or small does not signify—meeting those general business conditions which cause most men to take command of all available cash resources, with a membership which has been educated to regard their policies as tickets for cash practically on demand, and who have taken them in such a company

because they were so available, who were willing to protect their families so long as they did not want to use the money themselves, but who, not having been educated to put family protection above every other interest and duty, would take that protection only where it would not interfere with their free use of the money when they wanted it, and what may that company reasonably, inevitably expect? It will suffer a withdrawal of its members proportioned to the intensity of financial difficulty and pressure; in severe times a very great number, greatly reducing its vitality basis, certainly taking out its best and leaving its worst lives, and raising its mortality, and requiring the conversion of its best investments into cash at a most unfavorable moment for their sale, in order to enable it to pay out large sums to its outgoing members, thus destroying its own credit and furnishing strong reason to every sound life to get out.

The danger is an absolute, immeasurable, and most critical one. It has not yet appeared in full measure among American companies because few, if any, of those which are certainly exposed to its malign operation have yet reached the static condition which will leave no practical defense against its effects. But the conditions for a disastrous experience somewhere in the future are being fully prepared in many companies. The annual privilege

of surrender for cash is now presented as a prime attraction ; the bulk of the business is already exposed to be swept away by its exercise. The permanency of corporate life and uniformity of operation which are absolutely essential to the undertakings of a life insurance company, are put completely at the caprice of members secured by an appeal to selfish interest, not to unselfish, paramount duty. In order to get new members the more easily, they are given unqualified power to wipe a company out of existence in any one year.

To do justice to the membership which remains, to protect the corporate life and integrity against capricious self-destruction or corrupt or malicious assault, to still give the family of him who withdraws of real necessity some remaining measure of that protection which is our function and their greatest need and greatest when it cannot be longer paid for, and yet to fully and equitably recognize all that is due to the departing member whose future claim has lapsed, the only true, completely effective and safe method is to give paid-up insurance for the surrendered policy, for its unexpired term. This retains the member, minimizes the vital loss and the narrowing effect of withdrawal, and prevents disturbance for the advantage to one, of the investments made for the common and equal

benefit. Any other treatment of a withdrawing member ought to be rare and exceptional and governed in its detail by those special and rare circumstances which may rightfully constitute the exception for the individual as against the safety, profit, and general good of all the rest.

In a word, cash surrender values are false in principle, constantly destructive in tendency, expensive as calling for a maximum replacement of lost business, and dangerous to every operation by which a company proceeds to the fulfillment of its insurance obligations.

Concerning a proper surrender charge I wish to say only this: where paid-up insurance is given on a lapsing policy, the charge should have regard to the probable vitality loss on the amount of risk surrendered, and to the cost of replacing it by new memberships. These are variable elements, especially the latter. In the case of cash surrenders there is need of an additional charge in the nature of a safety fund or insurance against the destruction of the company or its reduction to perilous conditions by the free employment of the malign privilege. How much that part of the charge ought to be we have no means of knowing. We have only just got the conditions fairly set up for the future experience which will throw light on the matter. Some have already gone far enough

to know that the danger is not imaginary and is something more than theoretical.

LOANS ON POLICIES.

Akin to the annual cash surrender value in its destructive effect both upon the company's stability and existence and upon the protection of the family, is the loan to the insured of the reserve upon his policy. Its sole virtue in comparison is that it does not at once and irrevocably destroy all the family's insurance, and leaves open the possibility of its restoration by the repayment of the loan. But if it staves off the day of cash surrender it goes much more than half way toward it. It gives the cash, leaves the full premium to be paid upon a reduced amount of insurance while the loan runs, and adds to the unreduced cost of a reduced insurance the interest on the loan. And, like the annual cash value, it has the abhorrent vice of teaching a man to consider himself first and his family last. Both in its suggestiveness and in the pressure of its conditions, it leads strongly toward lapse; and it is small wonder that so few loans are paid and so many lapses ensue.

I am aware—none better—that I have spoken to you, gentlemen commissioners, against an almost overwhelming drift of practices indulged in, not because they truly develop or conserve correct

principles, but because they make it easy, for the moment, instead of hard, to get business ; because in place of unselfish, persistent self-sacrificing duty, they present self-interest and a speculation ; not because upon them one may build in assured soundness from the bottom up, but because one may thereby build rapidly and brilliantly, leaving to future storms the revelation of rock or sand in the foundations of these houses of hope for the families of our land. And I have so spoken to you because as the recognized and lawful guardians of the immeasurable public interest in these things, as those who are presumed and bound to know the true and to discriminate it from the specious, it is in your power to create a public intelligence, a public opinion, and a public conscience which will not always see the truth denied nor made of non effect.

JOHN B. LUNGER :

SPECIAL FEATURES, ETC.

THE first part of this title offers the opportunity of discussing a wide range of topics, but I shall endeavor to avoid its temptations, and

confine myself chiefly to the special features which have been introduced into policy contracts during recent years, and to some of the advantages which have accrued therefrom.

AN AMERICAN CHARACTERISTIC.

It is one of the characteristics of the American that when he takes up a fresh line of research or a new pursuit he is prone to concentrate his energies upon the particular subject which happens to engage his attention until he has exhausted its every useful possibility or developed it to such an extent that it seems incapable of further improvement. It is to this national characteristic that we owe much of our success as a people in practical pursuits, invention, commerce and war. For the past ten years the architects of life insurance have been exhibiting this national characteristic in the development of special features in policy contracts. To such an extent has this tendency been carried that the good old-fashioned forms of life and endowment policies appear to be struggling for an existence amidst a mass of consols, debentures, bonds and income policies.

BASIS OF NEW FORMS.

These new forms of policies are generally produced by combining with the simpler forms of

life and endowment policies a deferred annuity element guaranteeing to the insured after a specified period of years, or to a beneficiary on the death of the insured, an attractive income—usually, but improperly, called interest—upon the principal sum of the policy. In some instances an attempt is made to enhance the value of the policy by paying the income through a trust company or by attaching negotiable coupons to the policy. While the spirit of life insurance is keenly in sympathy with features intended to provide for old age or to guard the final effectiveness of the proceeds of a policy, care should be exercised in drafting contracts intended to subserve such excellent purposes to include only such benefits as are within the legitimate scope of the business. If an income (interest) is to be paid after the maturity of the policy, the rate assumed should be kept within the rate which the company makes use of in computing its policy liabilities, and the payments should be made direct to the insured or to the beneficiary. If the rate is made to appear larger than can be earned on a safe investment, or the deferred annuity element is merely a subterfuge to secure an extra loading on the premium, the policy is liable to become an instrument of deception.

The expediency of issuing policies with negotiable interest coupons is seriously open to question.

It should always be borne in mind that the function of life insurance is to protect the family and to provide for adversity or old age ; not to furnish securities to be bought and sold in the open market or passed from hand to hand, like railroad stocks or bonds. It is to be hoped that this particular feature will soon be numbered among the things of the past.

We might properly take exception to certain other of these basal features, but in the main the tendency has been in the right direction, and out of the many innovations advantages will accrue which will prove of lasting benefit to the business.

INSTALMENT AND TRUST FORMS.

There are no statistics upon which to base an estimate of the losses incurred through unwise investment of the sums paid to beneficiaries as death-claims, but when one observes how very few have solved the problem of investing even small sums beyond risk of loss, it is not surprising that the officers of life insurance companies should feel great concern regarding the preservation of the sums paid to beneficiaries, especially when it is considered that such payments often constitute the only provision which the insured has been able to make for those dependent upon him. We should welcome, therefore, any feature which will

protect the insurance after the death of the policyholder and serve to safeguard the purposes for which the insurance was taken. The plan of paying policy-moneys in instalments is so in keeping with this thought that it is worthy of special mention and commendation. There are two ways in which instalment policies are made payable. The first form limits the payments to a specified period of years, generally 10, 15 or 20, and the second form, which is by far the more preferable, provides for at least twenty annual payments, and if the beneficiary is living at the end of this period, the payments are continued during the remainder of life. This latter method of payment is embodied in what is known as the continuous instalment policy, and when that policy is so drawn that the instalments cannot be assigned or commuted during the life of the beneficiary, it constitutes to my mind the ideal form of protective life insurance.

One of the prominent companies safeguards its insurance in another way. It will, at the request of the insured, attach to its policy a certificate, in which the insured may define his wishes as to the disposition of his policy. Generally a beneficiary is named to whom a stated income is paid as long as the proceeds of the policy will permit. Interest is allowed upon the fund remaining in the hands of the company, at a rate of about one-half of

one per cent. less than the rate the company earns upon its investments. The proceeds of a policy to which this certificate is attached become a trust fund which is administered strictly in accordance with the wishes of the person by whom the trust was established. The payments made are free from taxation and all other charges.

I would venture to predict, as one of the outcomes of the present tendency amongst men of wealth to place their estates in trust, that a considerable number of the policies written in the future for large amounts will include either the instalment, or the trust features which have just been described.

OPTIONAL SETTLEMENTS.

Among the special features wisely developed in recent years under the non-forfeiting tontine or accumulation policy, is the privilege given the insured of making a choice among various methods of settlement at the end of the first dividend period. This feature has added greatly to the popularity of the form of insurance mentioned. The insured is no longer confined to one of two alternatives: (*a*) remain in the company and take insurance, (*b*) get out and take cash (often with a large discount); nor is he obliged to decide at the inception of his insurance what disposition

he will make of his policy at the end of the first dividend period. At least three options are always given, namely, the privilege of withdrawing in cash the entire proceeds of the policy, consisting of the reserve and the accumulated dividend; or of applying the proceeds to purchase paid-up insurance at net rates; or to purchase an annuity. When the form of insurance permits, these three options are supplemented by others, which consists of combinations of cash and insurance, insurance and an annuity, annuity and cash, and so on; the options as a whole being so comprehensive that at the end of the dividend period the insured may adjust his policy to suit his then condition of life.

TABLES OF SURRENDER VALUES.

The practice of writing surrender values in dollars and cents in the policy, instead of merely giving the rule by which such values will be calculated, is helping to dissipate the idea that life insurance contracts are full of technicalities and pitfalls. It is to be regretted that some of our leading companies hesitate to adopt this practice, and for no other reason, apparently, than that it increases the liability to error in writing the policy, and puts them to a slight extra expense. Errors can be avoided by the proper checks, and the expense will be met many times over by the diminu-



tion in lapses, which is the invariable result of a clear and liberal policy. So far as I am informed, the first serious mistake in writing these tables has yet to occur. It is to be hoped that this feature will extend until all life insurance policies are so explicit that inability to read will be the only excuse that can be given for a failure to comprehend them in all their details.

CASH LOANS.

The embodiment of cash loan privileges in policy contracts may be regarded as one of the most important new features in life insurance. The right of the insured to an equity in the reserve on his policy, finds, in my judgment, its best recognition in the granting of loans at stated times upon reasonable terms and conditions. How often is it noticed that when the holder of a policy finds himself in trouble he hastens to apply for the cash value of his policy, although it is evident that at such a time life insurance is an urgent necessity and should not be abandoned without careful consideration. How much better for all concerned if the desired relief can be gained without the entire sacrifice of that which, in the event of death of the insured, may stand between those depending upon him and penury. The officers of companies granting cash loans will undoubtedly certify that in the panicky times of

1893-94, the relief given through loans on policies saved many thousands of policy-holders from serious financial trouble, while enabling them to continue the much needed insurance, and those benefited on their part will, no doubt, gladly testify to their appreciation of a plan which confers such important and timely advantages. In granting cash loans it is the practice in some companies to allow the loan upon application, without regard to the continuance of the payment of the premium on the policy. This practice is open to some of the objections that may be urged against cash surrender values. It is better to require that the premium for the ensuing insurance year shall be paid in advance, basing the loan upon the reserve in that year. By this plan the insured always secures a year, at least, in which to free himself from his financial difficulties and to make provision for the payment of the ensuing premium on his policy.

The premium lien note is but a modified form of the cash loan, and its use is to be encouraged when the financial difficulties of the insured affect only his power of paying his current premium. These notes are commonly drawn as a permanent lien on the policy, payable at the convenience of the insured. This convenient time, as is the case with most matters relating to life insurance when left to the discretion of the insured, is apt to seldom ar-

rive, and the notes, therefore, generally become a permanent incumbrance on the policy. It has often occurred to me that if these notes could be drawn after the style of an ordinary note of hand, and made payable at the end of a stated period at a national bank, that a large percentage of them would be paid in cash. In event of non-payment they could be renewed for a further period, provided the policy was continued in force.

RETURN PREMIUMS.

Among the new features introduced during the five years succeeding the Civil War was the first use of the return-premium idea in this country. Later it came into much wider use, and at the present time a considerable fraction of the life insurance contracts issued are in effect increasing insurances during the first twenty years of their existence, the annual increase being equal to the premium or to some proportion thereof. This appendix to the original contract has, in many cases, been the source of intense gratification to the heirs of the insured. It was Carlyle who pointed out that the mental satisfaction derived from any newly received possession depends on the ratio of what we receive to what we expected to receive. How often has it happened, in the settlement of death-claims of policies which carried no return-

premium attachment, that the deduction of unpaid fractional premiums from the understood amount, or in more serious measure of loans which the insured had obtained against the policy, has left the net result in the minds of the beneficiaries one of discontent, and how much more agreeable to all concerned are such settlements when that little return-premium attachment has provided the extra amount which covers all the company's claims against the insurance, and still leaves to the heirs some excess over the nominal face of the policy.

UNDER-AVERAGE RISKS AND PLANS.

Our business has sometimes been referred to as one of risks, chiefly of death. Those who are familiar with the statistics know that so long as medical directors are restricted in their selection of lives by present rules and traditions, the "risk of death" may be forecast to an almost absolute certainty, and that the resulting deaths will be well within the tabular limits. The stringent selection of risks is chiefly due, in my opinion, to the pressure put upon the companies to pay large dividends. When this pressure is reduced, and the payment of dividends becomes, as it should be, a subsidiary feature of life insurance, the ratio of mortality will be somewhat nearer the tabular expectation, and there will have been a great addition

to the usefulness of the business. In the meantime, many worthy applicants and their families must suffer because existing conditions demand low mortality ratios.

Until mortality becomes a more elastic factor, any plan which will give insurance to an under-average risk ought to be as welcome to the business as a breath of cool air to a fevered patient. Policies on under-average lives have been issued in England for many years, but the business has never assumed large proportions. Several small companies have been formed in this country for the purpose of making a specialty of this class of business, but those which have not failed have either drifted into regular channels or are still in the experimental stage. It is only recently that one of the prominent American companies has entered this very promising field. That company several years ago formed a special department for the collection of data pertaining to its declined risks. The information obtained was classified, and special mortality tables were then computed upon which that company is now issuing policies subject to liens or extra premium, or both, to a large percentage of applicants who, under former conditions, would have been declined. Of all the new features in our business, this one is capable of the largest development and offers the best field

for investigation and study. Life insurance should be a broad business of underwriting any reasonable contingency of life or death.

PROMPT PAYMENT OF CLAIMS.

The practice of paying claims promptly, and of guaranteeing this in the policy, has blown away one of the clouds that formerly cast its shadow over life insurance, and may be fittingly referred to as a special feature. It is neither delicate nor prudent to force money on a beneficiary at a time when her mind is distracted by grief, but as soon as proofs of death are made out, both good taste and judgment dictate that payment of the claim should not be delayed. "Pay all debts promptly" is as good a maxim to follow in life insurance as in our private affairs.

MINOR FEATURES.

There are a number of new features of minor importance in ordinary insurance that I might refer to if so disposed, but none of them seem to call for special comment beyond that, they, together with the more important special features, the elimination of technical and objectionable conditions and the increase in surrender values, have aided to produce the policy of to-day, with its freedom

from restrictions, its brevity, its clearness of statement, and its remarkable adaptability to every reasonable contingency.

SPECIAL FEATURES IN INDUSTRIAL INSURANCE.

Let us now turn for a moment to the new features in industrial insurance. This branch of the business, which has grown to such magnificent proportions and is exercising such a beneficent influence in bettering the condition of the poor, consisted, at the time of its introduction into this country, and for some fifteen years thereafter, of a stipulated death benefit for a stated weekly premium, generally five cents or a multiple thereof. Up to about five years ago only one company granted surrender values or gave any benefit of value beyond the payment of the policy as a death-claim. During the past five years new features have been introduced into the policies and into the practice of the industrial companies, until it may be said that a revolution has taken place in that business. Industrial insurance in this country is practically confined to three companies. One of these companies grants cash values and paid-up insurance under the Massachusetts Non-forfeiture Law after two years' premiums have been paid. Another company grants paid-up insurance after three years' premiums have been paid, and cash values at the

end of the twentieth year of the policy's existence and at the end of each fifth year thereafter. The third company grants paid-up insurance after five years' premiums have been paid ; it does not offer cash surrender values, but will consider urgent requests for cash values on their merits. Two companies pay cash dividends on the 5-year dividend plan. One company pays cash dividends at the end of the fifteenth year and each fifth year thereafter. It is very suggestive of the disposition towards fair play that obtains in these companies, that the paid-up policies and cash values are granted for amounts equally liberal with those usually granted by the ordinary companies. It is interesting to note that, in the granting of paid-up insurance, one company goes so far as to notify the owner of a lapsed policy entitled to paid-up insurance, of the amount to which he is entitled and of the manner in which the paid-up policy may be obtained.

It will be seen from the foregoing that, in the introduction of new features, those who are responsible for the management of the industrial companies are not one whit behind those of their brethren who deal with larger individual policies. I think I may safely assert that industrial insurance, as practiced in this country, has arrived at that point where the one serious problem for the companies to

solve, is to devise ways and means of reducing expenses in order to be able to give a larger amount of insurance for the premiums paid.

DIVIDENDS.

TOO MUCH STRESS LAID ON DIVIDENDS.

The fact that most life insurance companies are conducted on the mutual plan under which all profits revert to the insured, and the desire of the insured to secure the largest possible returns for the premiums paid, combine to make dividends and the methods of their distribution a subject of great importance ; but it does not necessarily follow that so much stress should be laid on these features of the business as to lead one not familiar with life insurance to think that payment of dividends is the chief object of the business. More circulars were woven around, and more arguments based upon, the \$18,000,000 of dividends that the companies paid out last year, than upon the \$80,000,000 that were distributed in death-claims and endowments. Agents, in soliciting, fall into the same error, and discourse more eloquently upon the dividend which a particular policy will pay than upon all its other benefits combined ; and when two agents meet in competition, one representing a

semi-tontine company and the other an annual dividend company, many of the intrinsic merits of life insurance are lost sight of in the smoke that arises from the fiery arguments for and against these two methods of paying dividends.

RECOGNITION OF PLANS.

For one, I heartily wish that all contention regarding the relative merits of the two dividend plans could be replaced by a courteous recognition of the advantages of each system. The physician does not expect that every disciple of Esculapius will agree with him in all his views regarding nosology or *materia medica*, nor does the lawyer expect that every follower of Solon will agree with him on every question of law or equity. Diversity of opinion stimulates and encourages research. There would be little advance in medicine or law if the minds of physicians and lawyers ran in the same ruts.

To be prosaic, but more to the point, the merchants who print cotton cloth, while using the same fabric as a foundation for their goods, produce an endless variety of colors and designs. What would be thought of one of these merchants if he insisted that every other person engaged in printing cotton cloth should follow his lead in colors and designs, or, if he attempted to dictate

that the public should wear the colors and designs which were most pleasing to himself personally? The sensible merchant attends to his own affairs, respects his fellow-man, endeavors to keep in touch with the fashions of the day, and to weave his goods accordingly, striving at the same time by new fabrics and designs to interest the public in his especial product.

While it should be recognized that at the foundation of our business there should be principles from which it would be dangerous to deviate, it is important that in practice there should be some substantial points of variance, and that we should study the wishes and desires of the public and draft our policies in keeping with the needs and tastes of the times. Since this is the case, why should not one company make a specialty of accumulation dividends, and another, if it so pleases, of annual dividends? Admit this, and then let the advocates of each system agree to respect the opinions of those who believe in the other, and agree that any difference of plan, while being open to debate at the right time and in the right place, is not a reason why the motives and even the honesty of those who think differently should be questioned. It is a pity that a business so broad, so vast and so dignified as life insurance, should be sullied by such acrimonious discussions of

dividend plans as we have been obliged to listen to in the past.

ANNUAL DIVIDENDS.

In the early days of life insurance, dividends were computed by rule of thumb and paid at irregular intervals, but afterwards, with more scientific methods, it became the practice to pay them annually. At that time the business consisted almost entirely of life policies, and it was not the custom of the companies to urge insurance upon any ground other than that of protection, and it was the aim of the companies to furnish this protection at the lowest net annual cost, it was therefore fitting, in the then state of the business that dividends should be declared annually, or, to speak more strictly, that the overcharge should be returned annually.

In the expression "net annual cost" we have the principal argument for annual dividends, and while the companies which make a specialty of paying dividends on this plan have ungrudgingly kept pace with the extension of, and increase in, surrender values, they seem content to go on doing business in a small way, ignoring the demands of the great mass of people, who, so long as dividends are to be a feature of their policies, desire to secure the largest possible returns. The annual dividend

companies have also failed to appreciate the encouragement to persistency which is one of the best results of the semi-tontine plan, not only to the company, but to all who are concerned in any way in its affairs. Neither do they recognize as fully as they should that those who have helped to sustain the company, and to pay the losses incurred by the deaths of other members during a long period of years, are entitled to larger returns in proportion to the premiums paid than those whose connection with the company has been of short duration.

SEMI-TONTINE OR ACCUMULATION DIVIDENDS.

It is impossible to discuss intelligently this method of paying dividends without referring to the form of policy with which the accumulation or semi-tontine plan of paying dividends is associated, and of presenting briefly the conditions which gave rise to the policy contract and the influence it has had upon the business. When we look back to the conditions under which life insurance was conducted at the end of the first twenty years of its existence in this country, it is not suprising that we should then find a state of affairs most unsatisfactory when considered in the light of present knowledge. Although there were a number of companies then doing business,

none of them had attained any great size or experience. The men controlling the companies had, in most instances, been drafted from mercantile pursuits or from the professions. Both the practical and the scientific side of the business were in their primary stages. The policies issued were cast-iron contracts without recognition of other than the simplest equities. Probably the number of men who understood the principles or the broad essentials of the business could have been numbered on one's fingers. But there were a few of those in responsible positions who were profiting by experience, and young men trained in the business and imbued with the spirit of life insurance were coming to the fore. There arose a demand for improved methods and more liberal practices. Then followed what might fittingly be termed the Renaissance of life insurance in this country. This occupied about five years. During this period non-forfeitable policies became a recognized feature of the business, the contribution method of dividing surplus was devised, the American Experience Table of Mortality was published, the companies began to issue short term endowment policies, and the tontine method of paying dividends was formulated.

The favor with which endowments were received proved that insurance combined with investment

appealed to the public, but then, as now, the number who could afford to pay the premium on a full endowment policy was limited. Moreover, the managers of those days were not one whit behind those of the present time in recognizing that the great evil of the business was the tendency to lapse, and much thought was no doubt given to ways and means of encouraging policy-holders to persist in their payments. There was a demand for a policy which would provide not only against death, but which would furnish a safeguard against the emergencies of life. Efforts were made to meet these conditions by reserve endowments—life rate endowments—accelerative dividend policies—and other forms, but the only practical and successful solution of the problem was found in the semi-tontine or accumulation policy. This form preserves the equities of the insured, provides protection while it is needed, and, when protection is no longer a serious consideration, the contract becomes an investment, or makes provision for old age.

ENCOURAGEMENT TO SAVE.

The semi-tontine policy is also a great encouragement to saving. Few men would save money unless they had some strong inducement. This is especially true in the case of small sums. Annual

dividends are generally drawn in cash, but I doubt if any one in this Convention can cite an instance to show that any holder of an annual dividend policy had deposited his dividend each year in a savings bank, or had invested it in any other manner. Generally the dividends are for such small amounts that little, if any, stress is laid upon the sum they would produce in the course of time through accretions of interest and the addition of other dividends. Every one would be astonished at the forethought of a man who could at the end of twenty years, for example, show a snug sum on deposit in a savings bank that had been built up in this way. If, therefore, the investment of annual dividends is to be commended, why should not the holder of a semi-tontine policy be more emphatically praised if his forethought leads him to take a form of insurance which will enable him to invest his annual overcharge or profit to far better advantage. If the most liberal dividends paid by any annual dividend company in the past twenty years are compounded at 4%, the result will be greatly below the Accumulation dividend on a similar policy. The holder of a semi-tontine policy is given every encouragement to persist in his original intention, and if he succeeds, he is rewarded for his prudence far better than he would be under any other plan of insurance. In brief,

Tontine dividends may be cited as another evidence of "the triumph of collectivism over individualism."

TONTINE RECOGNIZED IN FINANCE.

The advantages of building up profits on the tontine plan are recognized by every financial institution of importance and strength. Surplus, undivided profits and reserve fund in other financial institutions are synonymous with tontine profits in life insurance. In fact, the word "tontine," as used in matters of finance, may be defined as "the holding back of small present profits in order that large future profits may be realized."

A marked case of the productiveness of profits accumulated on the tontine plan is that of the Fifth Avenue National Bank, of New York, which, although organized in 1875 with a cash capital of \$100,000, did not pay a dividend until 1891. Its surplus now amounts to \$100,000; its undivided profits to \$1,020,000, and a share of its stock of the par value of \$100 now has a book value of \$1,220. When this bank began to pay dividends the returns were so large that each stockholder had reason to congratulate himself that the profits were not divided each year as earned. So under a policy of life insurance—if the divi-

dends are paid annually, the book value of the policy seldom goes above 100, but if the dividends are permitted to accumulate on the tontine plan, the book value of the policy increases each year until finally, when the time for settlement arrives, the returns amply compensate the person insured for his prudence and self-denial.

MORTALITY.

The confidence arising from unusual strength and vitality on the one hand, and the misgivings of those who fear some inherent physical weakness on the other hand, are not without their effects in life insurance. "Self selection," as it is called, gives rise to many interesting problems, and it will no doubt play a part in life insurance as long as men are disposed to take advantage of intuitive impressions in deciding any question pertaining to self-interest. No doubt the influence of self selection is exaggerated, but nevertheless the fact remains that the form of insurance is invariably an index to relative ratios of mortality—the highest rate being found under policies with low premiums, and the lowest rate being found under policies subject to high premiums. The higher priced policies are, as a rule, applied for by those who are in comfortable circumstances; such persons, in case of sickness, receive the best of

care, secure the highest order of medical attendance, and, after recovering from an illness, are disposed to go to some health resort to recuperate before taking up their daily duties again. On the other hand, persons whose means are limited are generally compelled by this disadvantage to apply for the lower-priced policies; in case of sickness they often lack proper nursing, the delicacies so essential to the sick, and, perchance, are obliged to return to work before complete recovery has taken place.

Making due allowance for environment and circumstances, we still find many evidences of self selection, and this trait comes very emphatically into play under the semi-tontine policy. Only those who can look forward in the most hopeful manner to long life, and who are conscious of strength and vitality, are apt to apply for semi-tontine policies, and in consequence mortality is much more favorable under semi-tontine policies than under annual dividend or non-participating policies. As low mortality is one of the chief sources of profits in a life insurance company, the effect of this tendency upon dividend earnings is very marked.

PERSISTENCY.

It is evident that any feature that can be introduced into the policy which encourages the holder

thereof to keep his insurance in force is of direct benefit both to the policy-holder himself and to the company. The tontine method of paying dividends has undoubtedly accomplished this purpose far better than any other feature that has ever been introduced into life insurance. The books of one company to which I have access show that there are very few withdrawals under policies written on the 15-year plan after the seventh annual premium has been paid, and under policies written on the 20-year plan after the tenth annual premium has been paid. The policy-holder from the very outset can look forward with confidence to receiving a large dividend at the end of the dividend period, but with each payment on the policy the date of its maturity seems closer, not only enhancing the value of the dividend, but offering a constantly increasing encouragement to continue his insurance to the end.

EFFECT ON NEW BUSINESS.

There is an old simile which says that new members are just as essential to a life insurance company as new blood to the human body. Though an exaggeration, it is not entirely inappropriate to say that new members are essential to vigor, strength, and resistance to decay. If we were not to eat the foods which replenish the blood, our

bodies would become anæmic and enervated, and our usefulness would become seriously impaired. In like manner, that life insurance company which neglects to secure the proper quota of new members each year is inviting weakness, and respectable liquidation. To supply the waste caused by deaths and withdrawals and to secure a sufficient number of members to insure proper growth becomes an important, if not the most important, branch of our business. In each office keen minds are taxing themselves with the formation and conduct of an extensive agency organization for the procurement of new members, and in the field, men of standing and intelligence are devoting their lives to the work. We know that we cannot procure new business without the agent, and so long as this is the case, it is economy and good judgment to give him policies to present which will increase his efficiency to the utmost. In 1868 the insurances in force in regular companies amounted to about \$1,529,000,000. At the end of 1897 the figures had been increased to \$5,256,000,000. If we look at the figures of the most progressive non-tontine companies during this same period, we shall find indications that lead to the conclusion that, of the very large increase made by all companies, fully 70% was composed of semi-tontine insurance. This remarkable exhibit proves that

the semi-tontine policy contains the most convincing arguments ever put in the hands of an agent, and that it is unquestionably the best form of insurance ever devised to meet the controlling instincts of the human mind.

SURRENDER VALUES.

THEIR DEVELOPMENT.

The inclination to mould the policy contract to the varying conditions of life, has not been confined to the benefits secured by persistency, but is observable also in the development of plans whereby the rights of the policy-holder in case of the surrender of his policy are recognized. Surrender values were first allowed in the form of paid-up insurance. Subsequently cash surrender values were introduced, and more recently extended insurance has become a feature in policy contracts of several companies. At the present time the policies of a large number of the companies provide, in case of surrender, for a choice between paid-up insurance and extended insurance, or between cash and paid-up insurance, while the policies of several companies offer either cash, paid-up insurance, or extended insurance. Only two or three companies offer paid-up insurance

alone, and it is but a question of time when these companies will yield to the pressure of the general practice. Each of the allowances made in case of surrender is computed on such a liberal basis that it would seem that the vexatious question of the proper charge or fine in case of surrender, is being settled by requiring none at all. It is gratifying to find that this liberality has not encouraged surrenders, but has been rewarded by an increase in the tenure of life of the policy. In fact, we are led to the pleasant conclusion that the owner of a policy containing liberal and valuable benefits is as slow to part with it as he would be to sell any other valuable and profitable security.

As surrender values will be discussed analytically and at length in other papers to be presented to this Convention, I shall limit this section of my paper to a few brief remarks on the advantages or disadvantages of the three non-forfeiture benefits mentioned.

PAID-UP OR EXTENDED INSURANCE.

The especial applicability of either of these benefits can only be determined by a knowledge of the condition of the policy-holder at the time of surrender, taken with the standing of the policy. In the case of a policy which has acquired considerable value, it is advisable in the majority of

cases for the policy-holder to take paid-up insurance, especially if he is well along in years and his income is uncertain or is growing less as time goes by. Paid-up insurance does not entail any obligation or impose any burden, nor is it brought to a close except by death or surrender. It is a security which can be filed away with the certainty that when it matures it will realize every dollar which it represents. Extended insurance, on the other hand, is the more advantageous benefit for those to take who are unable to pay their premiums, but who feel the need of a maximum of insurance, and expect within a reasonable time to be able to reinstate their contracts or to take new insurance. Extended insurance is generally granted without application; in other words, it is given automatically, thus protecting the policy in case the payment of the premium is overlooked during sickness or absence from home. Automatic extensions have this particular value—that no one is deprived of the equity in his policy through any technicality or through indifference or ignorance as to its value.

To my mind, in every policy issued, either paid-up or extended insurance should be made “automatic,” and the companies should not rest content with merely granting this privilege, but should, in event of lapse, wait a reasonable time for the in-

sured to apply for a surrender value, but if he does not appear within this time he should be followed up and a statement placed in his hands giving the value of the benefit to which he is entitled

CASH SURRENDER VALUES.

The arguments which I have advanced in favor of making provision in the policy for every emergency of life, point to the devisability of granting liberal cash values after the necessity of protection may have passed away and provision for self may have become the first consideration, or after the policy has been in force for the period for which in the first instance it was advisedly taken out. While the propriety of allowing cash surrender values for the purpose which I have defined is apparent, there is little to justify the guarantee of annual cash surrender values in the early years of a policy, unless it is that we must take a very cold-blooded view of our business, and say, that an equity in the reserve on the policy belongs to the insured, and that he should have the right to do as he pleases with this equity. I would contend that the insured having advisedly entered into a compact with the company to provide certain benefits for his family and for himself, such compact imposes on the company the obligation to protect the insured from a hasty, or, perhaps a

foolish step that may defeat the good object he had in mind when he entered upon the contract.

A man is not likely to apply for a cash surrender value in the early years of a policy unless he has, through ignorance or prejudice, become dissatisfied with the company in which he is insured, or unless he is in such a tight place financially that he must secure cash at all hazards. A man who demands cash for the reason first given is entitled only to the same consideration that we would give to any impulsive or thoughtless request. In the case of a man whose affairs are so badly involved that he is obliged to resort to his policy for financial help, it is fair to assume that, by reason of his difficulties, he needs life insurance more at that particular time than at any other period in his life. It seems more in accordance with the spirit of life insurance to give him the desired assistance in the form of a loan and to extend with it the opportunity of continuing the life insurance. There are individual cases, of course, the circumstances surrounding which call for cash surrender values. Such cases should be taken up on their respective merits, but it does not follow, because cash values can with propriety be allowed in certain cases, that the interests of policy-holders or of the company require that they shall be given in all cases, irrespective of conditions.

CONCLUSION.

In conclusion, I wish to express a thought that comes to me very forcibly as I write these lines. It is that the remarkable improvements and changes in our business in the past few years are influenced by motives more sincere and subtle than would be dictated by mere business policy.

Can we not discover in them evidence of a growing sense of conviction on the part of those to whom the administration of our companies is confided, that life insurance is a trust imposing moral as well as literal obligations which must be observed to the utmost degree?

We may not claim that life insurance has reached a state of perfection, but we may assert that the tendencies of the business are in the right direction, and that there are forces at work which will produce further and beneficial transformations as time goes by. Let us hope that these may all be accomplished in the next decade, and that we may enter the year 1910 under conditions which will give universal satisfaction.

INDUSTRIAL INSURANCE.

JOHN R. HEGEMAN :

WITH respect to the subject assigned to me, I am reminded of an interview I once had—and it was but a comparatively short time since—when an intelligent gentleman, who had been an editor of a paper and a member of a legislature, said : “ But hold on, what is Industrial Insurance, anyway ? ” And when I told him he contended that it was a misnomer. He said : “ I know a little of Fire Insurance and Marine Insurance and I have heard of Plate Glass and Fidelity and a lot of others, and they explain themselves ; but there is nothing in your title ‘ Industrial Insurance,’ *per se*, that attaches it to human life, and your baby was dubbed with the wrong name.” Perhaps there was something in his criticism. The word “ Industrial,” especially of late years, and particularly in this country, has come to almost wholly refer to the products or processes of manufacture, and to commercial production generally. In the

newspapers, on the stock exchanges, among business men in general, "Industrial" has pretty well narrowed down to a single application—that is, as the "Standard" defines it: "A stock, or security, based upon the incorporation, or capitalization, of an established manufacture or business, or to the incorporated company or enterprise itself." So we speak of "sugar" as an "Industrial," and of spirits and tobacco and glucose and oil and a host of other things. "Why don't you call it," our critic asked, "Industrial Life Insurance, or Life Insurance for the Working Classes, or Family Insurance—then a greenhorn might guess what you mean?" There is no implication in all this that any gentleman present is unfamiliar with the character of the work expressed by these two words, and the general familiarity with it now is a forcible tribute to the rapid development and vast scope of the business. So we may affirm that the title, like the business, has come to stay, and the two I's will remain in it forever.

THE ORIGIN OF INDUSTRIAL INSURANCE.

Like many another good thing, this business had its first development, along present lines, in Great Britain. Its particular name came to be of world-wide familiarity through the operations of the Prudential Assurance Company of London, of

which more anon. It was, of course, an outcome of the general principle of insurance as applied to the contingencies of human life, and that, in one form or another, goes back many hundreds of years. In every community, from the beginning of recorded time, there have existed all the gradations of life between poverty and plenty. In times of stress the individual has appealed for help to friends and neighbors. Out of this naturally evolved crude systems of mutual aid. Combination thus had its birth. Limited to specific occupations, as some were, we perceive the germ of Trade Unions. Among the Romans we find records of "Funeral Societies," in which, for a small monthly payment, each member was assured interment in a grave of his own, a funeral attended by his own fellow-members, a tablet with his name inscribed upon it; and, if he left a helpless family, upon them were bestowed gratuities. The Greeks had their Fraternities and the Teutons their Guilds. From them the movement of combination and organization, in time, reached England, and out of crude and faulty schemes were gradually developed the Burial Club, the Friendly Society, the Life Insurance Company (as ordinarily known), and the Industrial Insurance Company. We place the progenitors of the Industrial movement—that is, the Burial Club and the Friendly Society—in

the order named, because, while we find records of Ordinary Life Insurance Companies in England in the early part of the seventeenth century, and a plan of annuities put in operation by the States General of Holland in 1671, we find Friendly Societies in Great Britain as early as 1634, and we read of Burial-Fund Clubs in the Netherlands in 1622.

ANTIQUARIAN RESEARCHES.

Not to be caught napping by the antiquarian, and to stand with Solomon on his proposition that "there is no new thing under the sun," we are prepared to maintain that the Insurance principle—and the Industrial principle at that—far antedates all the years named, and goes back to a period some 1700 years before the Christian Era; that was when the Pharaoh Mutual Life Insurance Company was formed under the auspices of the King of Egypt. Those of you from whose memories the teachings of early years have not been altogether eliminated will recall that in the years of plenty he prepared for and thus insured against the years of want. And he vindicated the "Old-Line" principle by setting aside an adequate Reserve. His assets were invested in the granaries of Egypt, and in their contents of corn; and when the years of need came those assets met, as we read, not only every demand of the Egyptians, but of all the sur-

rounding country. Here was the first great International Company! Oh, yes, the people of modern times are clever and brilliant, but along many lines they are simply adopters, or adapters (not inventors), of things thousands of years old.

For another illustration: Among the numerous and we might say numberless, tables in the rate-books of some of the Life Companies is an ingenious one, called "Life, with the return of premiums." As its name implies, the face of the policy, and, in addition, all the premiums received by the company, are payable upon the death of the insured. Who originated that? It was none of the modern actuaries, with their commutations and formulas and interpolations and other concomitants of confusion. But it was the gentleman who rose from the pit to be Prime Minister of Egypt. For do we not read that when Joseph's brethren came for their insurance, he "commanded to fill the sacks with corn—and to restore every man's money into his sack—and to give them provisions for the way"? Here was the face of the policy—the return of all the premiums—and a dividend besides! Yes, we are right in our contention that for the life insurance principle as first known to, and applied by, the sons of men, we must go back to the pages of Holy Writ. The words "Insurance" and "Assurance" have each,

and both, been applied to the science of life contingencies. Much ink has been spilled by able insurance philologists in the advocacy and defense of each, and among some of the journalists of modern times the controversy has been waged with pens that scratched. "Insurance," we believe, nowhere occurs in the Bible; but in Deuteronomy we read these words: "And thou shalt fear day and night, and shalt have none Assurance of thy Life."

And now, on the principle of arousing the friend who asked his companion—when the preacher began his discourse by starting with Adam—to wake him up when the Dominie got down to the nineteenth century, let us direct our thoughts to a few facts connected with the business as it stands to-day.

THE GENERAL PLAN OF INDUSTRIAL INSURANCE IN THE UNITED STATES.

First, we define Industrial Insurance and its general form of procedure, as operated in the United States, as insurance on healthy human lives; covering all ages from two next birthday to seventy, inclusive; in amounts ranging from \$8 to \$1,200 per policy; applicable alike to both sexes; with premiums (under most of the tables and on the great bulk of the business) running from five cents

per week, and multiples thereof, up to one dollar ; with collections made weekly by the companies' agents from the homes of policy-holders ; with four weeks' grace in the payment of premiums ; with the proceeds of the insurance payable at death or at the end of the endowment term ; with all claims paid immediately upon proof ; and with paid-up policies, cash dividends, and extended insurance. This covers the salient features of the business in this country, with certain differences applicable to particular companies. In briefly informing you as to some of the tables, I will, if you please, refer to those of the company with which I am identified, as substantially representative of the business in general.

We have said that the unit of premium on most of the business, and as applicable to all ages, is five cents per week (the exception is a 3-cent premium in Canada) ; over against this are a few tables, where, for a round sum of insurance—such, for example, as an “even \$500”—the weekly premium (varying, of course, with the age) is adapted to the amount at risk ; or, to put it in another way, by the plan first alluded to, the insurance is calculated to the premium ; in the plan last mentioned, the premium is calculated to the insurance.

As there is no admission charge, initiation fee, contribution for expenses, or anything beyond

the stipulated weekly premium required from the assured, and as the heaviest outlays imposed upon the companies are for the procuration of new business, the death benefits under certain tables are graded during the first six months, and on others during the first twelve months of insurance, and are operative for the full sum insured only after the expiration of these periods. But on the great bulk of the adult business, as now and for some time past written, there is an increase in insurance, each and every year, after the third, of ten times the weekly premium; and at the expiration of the term of years shown in the tables the maximum amount matures as an endowment—the endowment term running from 10 to 70 years, according to age at entry. What are known as the adult tables in industrial insurance embrace ages from 10 to 70, inclusive—the Infantile covering below age 10, to 2 next birthday. No insurance in this country is written on lives under one year old, and the highest premium on an infantile life is 10 cents. The scale of benefits under the infantile table increases from the time the policy is three months old until the insured reaches the minimum adult age; then, every year, after the third, fifty cents of insurance is added for each five cents of weekly premium; the premium, however, is not augmented by these increasing benefits, but remains, all through,

at its initial amount; in other words, the plan is one of increasing insurance for a uniform premium. All infantile insurances now issued by the company to which I allude mature as endowments at the end of periods specified in the policies, varying from 45 to 59 years. Medical Examinations vary in their scope with different companies—in some being applicable to certain ages, or to the amounts of insurance applied for; but, in the company cited, every applicant, of whatever age, and for whatever amount, is examined or inspected by a qualified physician. This feature cost the Metropolitan last year nearly \$450,000. The average amount of insurance per policy in force exclusive of paid-ups is \$134.32 and the average premium 10 cents, the average infantile premium being a fraction over 6 cents. As to sex and age, the policies in force are a close reflex of the proportions of the general population.

To circumvent speculation—to guard against over-insurance—adult policies provide that, after a first insurance has been effected on an individual life, any other policy obtained on that life will be void, except under special written endorsement permitting such additional insurance; and in the case of infantile policies, where several companies have been found, at death, to have insurances in force on one life, no amount of insurance beyond

the maximum permitted by any one company is recognized, and that amount is adjusted, *pro rata*, among the companies interested ; and in cases where this maximum is transgressed, the excess of premiums is returned where the policies are thus adjusted.

INDUSTRIAL INSURANCE IN GREAT BRITAIN.

Let us divert our attention for a few moments and look across the water to the Prudential Assurance Company, Limited, of London, to which passing reference has hereinbefore been made. The history of this institution is practically the history of industrial insurance in the United Kingdom, and its general plan of operation has been that followed by the industrial companies of the United States. The London Prudential was organized in 1848 to work the usual forms of life insurance, and it was not until 1854 that it essayed the business of industrial insurance. Several years thereafter the directors made a thorough investigation of its industrial affairs. It was found that the results obtained had been wholly incommensurate with the expenses incurred, and that unless an immediate change took place, not only would the industrial branch have to be closed, but the ordinary business would be imperiled. Still later, the outlook continuing discouraging, a proposition

was made to the board to abolish the industrial business altogether. One more effort, however, was resolved upon, in pursuance of which large sums of money were lent to the company from the private resources of the directors, or were borrowed from personal friends, the directors being responsible for the repayment of principal and interest.

The youngest age then taken by that company was 10 years, the oldest 60. Later, the minimum was reduced to age 7. Only one of the company's representatives at this time did any considerable amount of industrial insurance, and upon enquiring into the cause of his success it was found that, to meet the urgent demands of the working classes, he had started a society of his own, in which he insured the lives of children too young for admission into the Prudential. Thus insuring the children, he found it easy to persuade the parents to insure their own lives in the Prudential. Thereupon the company took over the children insured in his society, and this incident furnished the starting point for their new table on which the minimum age at entry was "not under three months." But for fear of failure this table was not allowed to be generally circulated, but was confined to the use of agents only. These facts are cited in view of their relation to the company's present condition, which will shortly be alluded to.

The London Prudential now insures from the age of one week upward. From ages one next birthday to ten, inclusive, its premium is one penny sterling per week, and no higher premium is taken. To this company belongs the credit of inaugurating the plan of increasing insurance with uniform premium, the minimum benefit at the lowest age being £1-10-0, increasing with the age of the policy to the maximum of £10-0-0, the benefits beginning after three calendar months. From ages 11 to 75 inclusive, their tables run from one penny to six pence sterling per week, for a sum payable at death, with provision for an increase of the sum insured according to the duration of the policy. From ages 16 to 70 inclusive, they issue industrial policies for \$250, \$500, and \$1,000, with weekly premiums adapted to the age of the insured. They also issue old-age endowments combined with life assurance, from infancy to age 65, for one penny, two pence and four pence weekly, with immediate cash payments if the premiums be discontinued after a prescribed time. Various other forms are also issued, combining life and endowment features, joint life insurances, deferred annuities and whole life insurances, etc., for a penny to twelve shillings per week, and for larger sums than those published in their rate books (as applicable to adult lives)

at proportionate premiums. Adult policies are in immediate benefit to the extent of one-fourth the face of the policy, if death occur the first three months, one-half after three calendar months, and full benefit after twelve months. In cases of accidental death, immediate full benefits are payable. An extra premium of six pence per cent. weekly is charged on all policies of \$250 and upward on the lives of publicans and others engaged in the liquor business. Lapsed policies are revivable without fine any time within a year of the date of last payment on evidence of good health and the payment of arrears. Policies of five years' duration may be exchanged for paid-ups, provided the insured has reached 15 years of age. Policies for \$250 and upwards, by quarterly, semi-annual, or yearly payments, are issued in the ordinary branch.

From the tribulations of early years, as hereinbefore referred to, let us see how the company has emerged up to the present time. In 1854, when it began its industrial work, the amount of premiums collected from both branches, ordinary and industrial, was a trifle over \$15,000. Last year (1897) the premiums received in its industrial branch alone were a little under \$24,000,000. The number of industrial claims paid within the year was 194,235, the average amount paid under infantile

policies being \$13, and on adults \$34. It has more than 14,000 active agents, distributed over nearly every city, town, village, and hamlet of England, Scotland, and Wales, and to a lesser extent in Ireland. Its total number of Industrial policies in force, January 1, 1898, was 12,546,132, equivalent to about one-third the population of Great Britain and Ireland. Its industrial assets were over \$76,000,000. The average premium on its industrial policies is about 4 cents per week, and the average amount insured \$47. Combining the figures of both its branches, Ordinary and Industrial, we find its income in 1897 to have been, in round numbers, \$38,000,000, and its assets \$152,000,000—its growth in accumulations for the year having been \$17,000,000. It is interesting to note that upon the dominant personality in the creation and development of this remarkable institution, Mr. HENRY HARBEN, the honors of Knighthood were conferred, upon the occasion of the Queen's recent Diamond Jubilee.

Sixteen industrial life companies are operating in England, the latest obtainable figures showing 15,301,621 policies in force, \$736,000,000 at risk, \$33,000,000 in annual premium income, and an average amount of insurance per policy of \$46.50

EXTENT OF INDUSTRIAL INSURANCE IN THE UNITED
STATES.

Let us recross the Atlantic and see, briefly, what our own country has been doing. There are thirteen companies transacting industrial insurance in the United States (there were two others, the Germania and the Provident Savings, both of which discontinued it some years ago), and their names are as follows :

The Metropolitan Life Insurance Company,	{ . of New York.
The Prudential Life Insurance Company,	{ . of Newark, N. J.
The John Hancock Mutual Life Insurance Co.,	{ . of Boston, Mass.
The Pacific Mutual Life Insurance Company,	{ . of San Francisco, Cal.
The Life Insurance Company of Virginia,	{ . of Richmond, Va.
The Sun Life Insurance Company,	{ . of Louisville, Ky.
The Western & Southern Life Insurance Co.,	{ . of Cincinnati, Ohio.
The Baltimore Mutual Life Insurance Company,	{ . of Baltimore, Md.
The Provident Life Insurance Company,	{ . of Wheeling, W. Va.
The Citizens Mutual Life Insurance Company,	{ . of Atlantic City, N.J.
The Immediate Benefit Life Insurance Company,	{ . of Baltimore, Md.

The Central Life Insurance Company,	} . of St. Louis, Mo.
The Colonial Life Insurance Company,	
	} . of Jersey City, N. J.

The gross assets of these companies, December 31, 1897, in round numbers, were \$76,000,000, of which about one-half may be credited to the Metropolitan, and 93 per cent. to the Metropolitan, the Prudential and the John Hancock. The increase of accumulations last year was \$12,483,844, of which that of the three companies named was \$11,848,772, or 95 per cent. The amount of insurance written by all was \$492,000,000—the three companies doing 92 per cent. The total insurance in force is \$1,159,068,096, of which 95 per cent. belongs to the three named. The premium income of all was \$44,193,348, the three companies standing for nearly 94½ per cent. The united surplus was \$12,649,377, about 87 per cent. belonging to the two companies first named, and 94 per cent. to the three. Their payments to policy-holders during the year were over \$16,000,000—the share of the three being ninety-three per cent. In all they have paid from the beginning more than \$100,000,000. Their contributions to the State through taxes, license fees and other like charges (not, of course, including taxes on real estate) have, during the last five years, amounted to about

\$2,000,000. Though the ordinary figures of all these companies are included in these returns, the great bulk of their business is industrial, and the published reports do not show the division of the two departments except as to policies and outstanding insurance. These latter reveal, in round numbers, 8,000,000 of industrial policies in force (of which we may observe that one-fifth are on lives under 10 and 80 per cent. are on lives over 10), equivalent to more than the population, according to the last U. S. census, of all the Territories and twenty of the States of the Union combined, and representing in round numbers one thousand millions of insurance. And all this without a rebate! The largest business ever written by any life insurance company of the world in a single year stands to the credit of one of the industrial companies, and that was in 1894, when an average of more than a million of insurance a day for every working day of the year was written. The industrial insurance business is distributed over 40 States (and in Canada), about 30 per cent. of it being in New York State alone, and nearly 60 per cent. in New York, Pennsylvania and New Jersey. In one of these States the commissioner observes in his last report that the industrial insurance written in his State during 1897 was greater by nearly ten millions than that of all the

companies on the ordinary plan. We may here observe, parenthetically, that the universality of industrial insurance, even in its present development, is a marked feature of the business. It is rarely, if ever, that an unusual loss of life occurs on land or sea, by fire or flood, through epidemic or other disaster, but that Industrial Insurance is in evidence. For example: 400 persons were killed by the St. Louis tornado, and 68 Policies were paid by the Metropolitan alone, in amounts varying from \$15 to \$700 each. In the Johnstown flood disaster it paid 61 Policies. The sinking of the "Maine" brought 46 claims against the three companies to which we have specially referred. Before the Santiago naval battle one man was killed on the "Yankee"—and he was insured in the Metropolitan. During that battle one man only was killed—on the "Texas"—and he was insured in the Metropolitan. And so the illustrations might be indefinitely extended.

There are some 30,000 men in the service of the companies as agents. The industrial operations of the three companies specified were inaugurated about 20 years ago, the other companies following during the intervening time, the company last named practically beginning this year.

Other industrial institutions within this time have organized and been in operation for periods

varying from eight years down ; but, after wrestling with unpropitious fate, they have succumbed to the inevitable. The business is a difficult and expensive one to establish. We have already touched upon—though very briefly—the early experience of the Great London Prudential. In the company with which the writer is identified seven years passed—many of them fraught with dire discouragement—before the tide began to turn, and between five and six hundred thousand dollars were absorbed by expenses and plant before the business was regarded as self-sustaining. One item of the “plant” in this instance it may not be uninteresting to refer to. It knew that to attain immediate leadership in the United States, the first requisite (next to competent internal management) was expert talent in field-work. It would have taken long years to educate a body of men in this country from whom large results could be assured. So it imported from across the ocean a body of competent, experienced workers in all the departments of field service. This was, of course, prior to the Alien-Contract Law, and it somewhat prefigured Mr. Chamberlain’s recently suggested Anglo-American alliance! Including their families, some two thousand persons were thus added to the population of the United States.

CONCERNING CRITICISMS OF INDUSTRIAL
INSURANCE.

EXPENSES.

There are various points of difference in the nature and operation—or, we might more properly say, in the operation growing out of the nature—of Industrial insurance as contrasted with Ordinary life insurance, and those differences have been seized upon by some, ignorant, or malicious, or both, as pegs upon which to hang grudges, or as points against which to direct assault.

First, they have imputed against it an unnecessary and unwarrantable expense. Their basis of comparison is, of course, with ordinary life insurance. Either by design or by inadvertence they have lost sight of two very important points (among others)—that is, the average amount insured under industrial policies and the frequency with which the premiums are collected.

The average sum insured under all the ordinary life policies in force in the United States is \$2,468. The average sum insured under all the policies (ordinary and industrial) of the industrial companies is \$142 per policy. The average is thus about $\frac{1}{18}$ in the latter as compared with the former. In other words, 18 policies must be written by an in-

dustrial company to equal the amount issued, on an average, on ONE policy in the ordinary. Or, let us put it in another way: the number of policies, or separate individual accounts, to be dealt with in connection with every million dollars of insurance, is 405 in the ordinary companies against 7,111 in the industrial companies! This ratio of 18 to 1 in the volume of labor required in connection with any given amount of insurance, holds throughout all the ramifications of home and branch office work—of all the indoor routine:—in examining applications, writing policies, conducting correspondence, settling claims, auditing accounts, keeping the books, making the valuations, preparing canvassing material, etc., etc. Yet upon referring to the ratio of expense to income in these two diverse forms of life insurance, we find (based upon last year's returns and excluding taxes) in the ordinary an average of 17.34 per cent., and in the industrial an average of 39.17 per cent.—a ratio of $2\frac{1}{4}$ to 1.

No one who has not visited a large industrial company's home office or made a study of its practical operations, can have any idea of the amount of detail involved, all of which contributes heavily to the expense item. The writer's company last year received on the average 25,000 applications per week. These came in on Monday; had

to be separately examined and checked ; passed upon by the medical examiner, the bad ones rejected, the doubtful ones postponed or ordered for re-examination by the local physician, the good ones passed ; and the policies to be written, checked off and sent by the following Thursday. As large a number as 80,000 applications has been thus received and passed upon within these few hours. When the policies are issued the applications have to be sent to the actuary, who (with his 125 clerks) registers all the essential particulars of them upon cards. The reserve on the policies issued and in force is calculated monthly, requiring the aid of 18 calculating machines. Ninety-three millions of cards are handled each year at the home office. These applications are written by 10,000 men in the field. They collect upon over 4,000,000 of policies every week, and turn in over \$20,000,000 a year in ten cent pieces ! Compare this with the 2,204,601 ordinary policies in force in all the other companies in the country, ordinary and industrial combined ! With each one of these field-men an account is kept ; and there are 156 bookkeepers at the home office. There are 16,000 agents' registers in use, and 228 ledgers. The total number of agents' accounts handled in a year is nearly 500,000. Fifty-five millions of dollars are received and disbursed in a year, and the number of cheques drawn

amounts to over 117,000—87,000 cheques, drafts, bonds, etc., are annually deposited. Twenty cash books and twenty-eight cheque books are in daily use. There are 2200 medical examiners employed in the 602 branch offices, covering 5314 cities, towns and villages, and the number of medical examinations and inspections number over a million and a half each year. Over 200 death claims a day are paid, the number having reached in one day as many as 445. The aggregate per year is over 63,000, and the number of death claims paid to date is over 600,000. Ten thousand people every year either call at the home office to pay premiums, or send their remittances through the mail. One hundred thousand dollars a year is the postage bill of the company and its district offices. It may be imagined that the correspondence and clerical force reach enormous figures at the home office. There are 54 stenographers and 300 typewriters; 25 letter books are in use, and an average of 10 per week (7000 pages) are filled. As many as 45 canvas sacks of mail matter have been received in one day, and 20,000 packages of supplies are shipped to agents during the year. The number of different forms used in a year is nearly 50,000,000—over 550 tons!—and the number of envelopes alone used is 6,000,000 annually. Seven thousand letter files are in use, and space is provided for over 34,000,000 in

the filing section for applications alone. In the communication between the members of the home office force, 5000 messages are sent daily through the pneumatic tubes. To show the close connection between the insured and the company, it may be said that 750,000 removals of policy-holders are registered, and the changes of name by marriage amount to 25,000 annually. The Metropolitan has indeed a large family to keep supervision of, and it costs money to do it.

Again, the same contention as to labor involved and service rendered presents itself in the field operations—the out-door work. Assuming the average amount per policy which we have shown to be outstanding in all the ordinary companies of the country as representing a premium of \$25 per thousand of insurance, we have an average ordinary premium of \$61.95 per policy per annum. These premiums are payable annually, semi-annually or quarterly. Notice is sent to the policy-holder by the home office, or the local agent, or both. He thereupon mails or otherwise sends his premium to the company. Where an agent collects in person it is exceptional and upon but the veriest fraction of the business.

The average ordinary premium thus shown—the premium representing only one policy-holder—is the equivalent of the weekly premium of 619 in-

dustrial policies, and these industrial premiums are due, not annually, semi-annually or quarterly, but 52 times a year, and they are not brought or sent to the company, but are collected from door to door by its agents ; and if the policy-holder is not in upon the agent's first call, he calls the second time and the third, and he keeps on calling until the 10-cent premium is collected.

Four hundred and sixteen millions of visits per annum upon the industrial policy holders in existence in the United States to-day is under rather than over the number which it is estimated the companies will be obliged to make. And this is at the rate of 1,328,000 visits per day for every day in the year except Sundays. If the policy-holders moves, whether from street to street, city to city, or State to State, the company follows him, not with a postal card, but by a human being under pay. When a claim arises the company's representative goes to the home and takes the claimant's written statement. He visits the doctor and gets his certificate. He calls upon the undertaker and obtains his record. When the money is received the agent carries it to the claimant. Briefly from start to finish the work is done by the company, and the company pays for it.

Doctrinaires call much of this expense "a wicked waste"—they weep over the tax thus laid upon

the wage-earner—they devise schemes for improving the plan; but all their notions are impracticable and futile—the companies have tried ways without number to lessen this outgo—and a fortune awaits the man who will invent a better plan. Let the one who has such a plan put it in practical operation, and not simply talk about it, much less waste his effort in condemning the existing system. Faultfinding (euphemistically miscalled criticism) is the cheapest commodity on the market. In Scripture days we read that “they all with one consent began to make excuse.” So, now, one critic is “too old to undertake it,” and one is “too busy,” and one is too something else. They are doughty antagonists on paper and before legislative committees; their statistics and diagrams (in their own judgment) are simply irrefutable; they love to keep themselves “in evidence”; as self-advertisers their ingenuity rises to the heights of Genius, they live in an ideal world; they soar into the infinite, and they dive into the unfathomable, but they never raise the cash to organize a company and put their theories to proof.

Among the features against which their declamatory din is largely directed, is the agency system. They not infrequently indict the agent as one fattening on the needs of the industrial classes. The truth, however, is that the average earnings

of the agents are probably well within those of the men among whom they solicit. In the largest Industrial company in the country these earnings averaged \$9.67 per week during the year 1897, and they were paid to a body of men characterized as a whole by remarkable intelligence, industry and integrity; men carrying the gospel of insurance to every doorstep in most of the considerable cities of the land, and working longer hours, and, as beforesaid, for probably less pay, than most of those on whom they call.

Concluding this branch of our theme, we remark that the working-people, meantime, are applying at the rate of several millions a year for the plan of industrial insurance as it is; and when the "better plan" to which we have referred is found, they will be on hand to accept it. So we promptly admit that the industrial policy-holder buys his insurance by a costly method, just as he buys his coal in small quantities, and as he buys all the necessities of life—by retail. He can get it in no other way. And he is satisfied to pay the Industrial company for bringing insurance down to his means, and for hiring some one to attend to details which he has no time to attend to himself. In other words, it is his own money, through the company, that pays the bills, and he knows it and is satisfied with it.

And so, without going more into detail on this theme—without particularizing the numberless channels of outgo imperative to a retail business of the infinite detail of this—we affirm that if just consideration be given to the labor involved in both branches of administration—home office and field work—it will be found that the services rendered by the Industrial and the Ordinary companies respectively, as related to any given volume of business, are as 18 to 1, while the cost of management is in the proportion of $2\frac{1}{4}$ to one.

MORTALITY.

Leaving the above branch of the subject thus only sketched in outline, let us consider briefly another of the points of difference in the two systems of life insurance, as bearing directly upon this matter of cost—that is, the mortality. The mortality among the industrial classes is obviously high, and even the careless observer knows the reasons. The habits and modes of life of many of their number; their unsanitary homes; inadequate or improper food; hard work; close confinement of some; necessary exposure of others; lack of the best medical skill, and, such as they have, only in the last emergency; their ignorance of, or indifference to, the simplest laws of hygiene—these all tend toward a relatively higher death rate.

As to the facts, comparing the number per thousand who die, according to FARR's English Life Table, based upon the general population of Great Britain, compiled from two censuses, with the Actuaries' Table, formulated from the combined experience of 17 English companies, and made the legal basis of computation in many of the States of the Union, both being interpolated for age next birthday; and these two with the Metropolitan's own Industrial Table, based upon 12,000,000 insured lives—we find the following:

DEATHS PER 1,000.			
Age next Birthday.	Farr.	Actuaries. ¹	Metropolitan.
20	7.74	7.25	10.52
21	8.46	7.33	11.56
25	9.24	7.72	14.14
35	11.24	9.19	17.15
45	14.50	11.95	22.56
55	21.75	20.99	35.22
65	41.20	42.45	64.51
70	60.80	62.51	90.99

¹ Slight variations will be noted between the actuaries' table and the one published in Mr. Fiske's article on Industrial Insurance in the *Charities Review*, which has been widely circulated, and may fall under the eyes of some who will read this. By an oversight the table published in the *Review* was at the even ages 20, 21, 25, 35, etc., instead of respectively for half a year younger in order to bring the figures into comparison with the Metropolitan table, which is for age next birthday. Mr. Fiske's argument is strengthened by the correction, as of course the mortality figures are lower than those he cited.

While industrial mortality may be improving, and while the companies are doing what lies in their power to help to ameliorate existing conditions, the facts stand and we must recognize them, not as we would fain see them, but as they actually confront us. This excess ought to be slowly reduced as the domain of the companies gradually extends over the vast country districts where conditions of life and health are more salutary, coupled with continued improvement, already so marked as contrasted with past years, in the sanitary requirements of our large municipalities.

THE INFANTILE BRANCH OF INDUSTRIAL INSURANCE.

For some years after the introduction of industrial insurance in this country the infantile side of it was the subject of controversy, attack and abuse, as it had been in the old country, and as it is likely to be in any new locality into which it may be introduced. It is not, perhaps, unnatural that its novelty and nature should provoke something akin to prejudice; and, until its merits are examined, that hostile forces be somewhat arrayed against it; or, if received, that it be with a qualified welcome—with heads shaken, shoulders shrugged, and endorsements written with a slow hand. But when it comes to be probed, no business better sur-

vives the operation. In making this statement we are not idealizing ; we are in the realm of fact, and we are only stating the results of experience. One of the old objections was that of Insurable Interest. What legal right, the critics asked, has a parent to put a money value on a child's life? Yet if a trolley happen to kill or maim the child, this question is promptly relegated to the rear. A just claim against the railroad company for compensation is recognized under such circumstances, and no slur is cast, when recovery is sought, by imputations about "making money out of the death of a child." Going a little further back, the same feeling existed against the insurance of a mother's life—it was regarded as somewhat of an affront against good morals. Finally it dawned upon the minds of most people, that, in the majority of the households of those of slender means, the wife and mother was the mainstay, and that an absolute, positive, pecuniary value inhered in her that death would wholly destroy, and that life insurance was justified, with proper restrictions, in recognizing. Still farther back the same feeling attached, strange as it may now appear, against even the insurance of the father of a family ; and history records public ordinances of various countries prohibiting and declaring void all life insurance contracts whatsoever.

Concerning infantile life the courts hold that

parents may recover damages for the prospective value of their child's services, even though when injured it be too young to render any service. They hold that parents may enter suit to recover damages for the death of a minor child, evidence of specific or particular damage not being essential to recovery. In brief, there is assumed to be a just and reasonable expectation of advantage or benefit to a parent from the continuance of a child's life—a reciprocal relation, in truth ; for the parent is held for the cost and maintenance of his children during their years of dependence—and a proper justification inheres in the parent to protect that benefit while his child is insurable and before sickness, accident, or other cause prevents. And so, from the Supreme Court of the United States down, it has been directly held that the insurable interest of a parent in the life of his child is unquestioned. These brief references to the law are not designed as arguments for the legality of child insurance, but rather that we may ask the plain, everyday man why, if the death of a child by the fault of another warrants a suit for damages, that same loss is not a proper thing to protect by life insurance—within bounds ? We say “within bounds” because manifestly a business of this nature without bounds—a business that encouraged mere speculation in human life—that led

to indifference or worse in the treatment of children—that tended to neglect in food, clothing, medicine, and general care—such a business, we say, would be clearly against public policy, and would deserve suppression. But if these faults existed, it is clear that the mortality among insured children would be greater than the mortality among the children forming the general population. Instead of this, the exact contrary is the case—the mortality of the children insured is less than the mortality of the general infantile population. This has been proven by the record of various companies across the water, and by the history of the companies here, in comparing their actual experience, first, with FARR's English life table, compiled from the general population of Great Britain, and embracing two censuses ; and, second, with the statistics of the United States census, both with respect to the general population, and with respect to thirty-one of the largest cities of the country. This comparison, for example, at the lowest age (two years next birthday) shows the Metropolitan experience as 49 deaths per thousand against FARR's 65, and against the United States census of 57 as to the general population, and 87 as to the 31 cities.

Beyond the statistics of the companies, parliamentary inquiries across the water and legislative

investigations here—directed almost wholly against the infantile side of industrial insurance—have been very critical and very exhaustive. In Great Britain all the legislative action resulting from successive reports has been more and more favorable to the business. And in this country, though bills have been introduced year after year in dozens of the States in which the writer's company is operating, and though the business has been probed to the bottom by sundry legislative committees, no prohibitive or restrictive measures in any of them beyond those formulated from the Company's own rules of practice have ever been enacted into law. It may be appropriate here to observe that Industrial Insurance is in reality what it was termed in the early part of our paper, to wit, FAMILY Insurance, and that the business is not, as many seek to affirm, largely Infantile. In evidence of this we submit the following table compiled from the U. S. Census of 1880 (that census covering divisions of the younger ages not found in the later returns), comparing the same with the Metropolitan percentage of policies in force :

Ages.	Percentage of Population, U. S. Census of 1880	Metropolitan Percentage of Policies in Force.
5 to 17 inclusive . . .	30.	28.7
1 to 9 " . . .	23.82	21
1 to 14 " . . .	36.21	32
1 to 20 " . . .	47.42	44

This confirms our assertion that the system is one of family insurance covering alike the wage-earner and the wage-consumer—purely burial insurance at the earlier ages—life and investment insurance at the later ages.

ALLEGED TENDENCY TO INFANTICIDE.

Again, a favorite charge against the business during its earlier years was its alleged incentive to infanticide. But that charge long ago died a natural death. Its advocates had no proof, nor anything that inferentially or conjecturally bore the semblance of proof. The fiercest legislative fight through which the business ever passed in this country essayed to start off on that proposition, but it was very promptly deserted, as there was nothing to sustain it. In all the annals of industrial insurance in America, covering millions upon millions of policies, there is just one instance where wrongdoing was imputed to the business, and that was years ago, in Philadelphia, where a husband and two children were poisoned by the wife and mother for the alleged purpose of obtaining the insurance money, which amounted in the aggregate to \$135! This was obviously an act of insanity—destroying, as the woman did, the very life on whose existence she depended for bread. The most violent and unreasoning assailant has

never quoted the act of this wretch as an indictment against infantile insurance; if he did he would have been asked what about the poisoning of the father, and he would probably have been referred, also, to the experience of the ordinary business as partially collated in the work entitled "Stratagems and Conspiracies to Defraud Life Insurance Companies." No; this well-worn libel upon the mothers and fathers forming the industrial element of the country is happily at rest. Evidence of thrift on their part is no longer held to betoken evil purpose. In protecting their families against Potter's Field or from becoming objects of charity it is no longer affirmed that they are simply concocting fraud. The imputation that providing a trifling sum against the day of death was only seeking an opportunity for murder is now buried too deep for resurrection. Parental affection certainly beats as warmly under the mechanic's blouse as under the millionaire's broadcloth. And the thirty thousand men engaged in the business are no longer held up as accessories to crime—that day is past.

COST OF INFANTILE INSURANCE.

Again, the tax upon the parent—the cost of infantile insurance—was also urged as unwarrantable. In fact, some called it a waste. But why?

Why as to children more than as to adults? Both have to die. Money is needed to bury the one as well as the other. The old habit was to pass around the hat and take up a collection when death entered the home of the workman. This was bemeaning and degrading. Industrial insurance came to teach self-help—that the man of slenderest means had it within his power to be independent of beggary and to stand on his own resources. From this influence thrift has radiated in other directions. One of the contentions made in the celebrated Massachusetts contest was that contributions made to industrial insurance had grown side by side with the increase in savings-bank deposits, and it was conclusively shown. The companies have with them, in this matter of educative influence, the judgment of many of the most eminent workers in the ranks of public charity throughout the country.

Allied to this is the charge of extravagant funerals. This charge will probably stand as long as human nature exists. It is the common instinct of humanity. It has been the policy of every religion and of all peoples to surround the disposal of the dead with circumstances of ceremony and expenditure. If there is any sentiment imbedded in the human heart, it is respect for the dead, and that respect is found nowhere stronger

than among those in the lowly walks of life. That its expression goes at times beyond the means of the surviving relatives may be admitted. But the claim that infantile insurance fosters this generosity is nonsensical. Quite to the contrary. In the company with which the writer is associated we have made careful investigations as to all the infantile benefits paid over a consecutive number of months or weeks, embracing thousands of claims, and we have found that in 86 per cent. of the cases—nearly nine-tenths—the expenses of sickness and burial exceeded the money derived from the policies. The average amount paid on infantile claims during the year 1897 by the largest industrial company in this country was \$25.83. If there is any over-expenditure in this branch of the work, it should be charged where it belongs, and not against a system whose provisions fall short of the outgoes actually incurred.

Yes, the companies would like to reduce the cost, and they are leaving nothing undone in that direction consistent with absolute security and safety; and this may be evidenced by the fact that industrial premiums are now so closely calculated that if the premiums on the policies now in force were reduced one cent each per week, it would, if continued, send the companies to bankruptcy in less than five years!

LAPSES.

Our concluding point, along this line, is the criticism sometimes indulged in about lapses—that because the lapse ratio is high the policyholders are losers and the companies great gainers. The truth is, the companies wish there were no lapses; they would like to have all the business they ever wrote remain in force, and they have done everything that thought and ingenuity can devise to stop them. The method of compensating agents, in nearly all the companies, strikes at the very root of this matter. The heaviest charge, as in all life insurance, is the agent's first commission for procuring the business. He is then paid a collecting fee based upon the actual amount of premiums turned in. But his first and larger commission is not based (except qualifiedly, as will follow) upon the amount of business he introduces; if it were, there would be a manifest inclination to be willing to see it lapse, that it might be rewritten and another commission obtained, and this procedure be repeated to the detriment of the company. This commission is only paid upon INCREASE—upon the growth, or increase, of his premiums from week to week. For illustration: if his total premiums on new business secured within a given week are one dollar and the lapsed premiums on

business previously written are fifty cents, he is not paid on the dollar of business introduced, but on the difference, or increase, of fifty cents. This plan also works, as is obvious, as something of a safeguard against a poor quality of business—a business obtained by any means that make against its permanency and persistency. The more rapid its waste, the more frequent and irksome the burden upon the agent. When the thoughtless, or the ignorant, therefore, charge the companies, as some have recklessly done, with the encouragement of forfeitures, they utter a monstrous untruth. They affirm that gain arises from lapses—contending that the companies turn into surplus the reserves on forfeited policies theretofore charged up as a liability. This presupposes that the reserves have been earned before being thus converted. Suppose, for simplicity and clearness, that we define a reserve as a sum necessary to keep a premium level—the too-much charged in the earlier years of a policy to offset the too-little charged in later years. In one of the legislative investigations it was shown from the books of one of the largest companies that at the end of the first year industrial policies showed a loss of 290 per cent. of their reserve—that the second year they had made up only 25 per cent. of the reserve liability—the third year they had made up but 52

per cent.—and that it was the fourth year before the company made its reserve liability, let alone any profit. The records of our business show that, of the business issued on a given date, over 70 per cent. is lapsed during the three years next succeeding. Of these lapses more than one-half occur during the first three months of the policy, and six-sevenths during the first year of the policy! Can anything but a dead loss be figured on these lapses? As matter of fact, the last calculation made by the writer's company, relating to the experience of the year 1896, showed the pecuniary loss that year by lapses to be \$813,000!

Let us look at some of the obvious reasons. First, there are fifty-two opportunities in the year for the lapsing of an industrial policy—as the premiums are payable weekly, as against one, two, or at the most four temptations a year (premiums being paid annually, semi-annually, or quarterly) in the ordinary companies. Next consider the differences in the people, pecuniarily and otherwise, among whom these respective forms of insurance are done. Further, bear in mind the nature of the lapse. In the ordinary company it is permanent—the policy-holder going out being apt to stay out; if he take up other insurance, he is persuaded into some other company; if he is dissatisfied with dividends, or other cause, he applies for a paid-up,

or a surrender value, and (whether he gets it or not) he withdraws and ends his relation as to that company. The industrial policy-holder, on the contrary, goes out and comes back. He lapses and re-enters. A shutting down of the mill, a fire, a strike, his discharge, the failure of an employer—a hundred things, conspire to cut off his resources. He exhausts his grace, and if, for the time being, he is unable to go on, applies for a paid-up (if he is entitled to it) and stops. Regaining employment, he comes back—and all his family with him. Another disturbance, and the same result follows. Starting afresh, or reviving his former policies (all of which counted as lapses), he again rejoins the ranks of the insured. Any comparison of the lapses, therefore, in the two forms of business is wholly irrelevant. But what do statistics show as to the actual experience of the ordinary companies as compared with that of the industrials? Taking the last five years, the total insurance lapsed in the ordinary companies was 78 per cent. of the amount written within that period. The industrial companies over the same five years showed 75 per cent. For last year, 1897, the figures stand as 73 per cent. in the case of the ordinary companies to 65 per cent. in the industrials!

But "Hold!" says some particularist, "that's hardly fair. Dealing with such an immense aggre-

gation of small, individual insurers, your ratio ought to be less." Well, should it? The ordinary insurer is a man of a fixed or assured income, or some approach to it. The industrial insurer is one generally dependent upon daily or weekly wages. The occurrences as to nature and number affecting each we have barely hinted at. In times of business disturbance mills shut down, trade is suspended, employers fail. Where hundreds or even thousands of employers may be thus affected, tens and hundreds of thousands of the employed, the country over, are deprived of work and of wages. A fire in a large refinery threw 2500 men out of employment in one night. It made no difference in the scale of expenditure to the half-dozen men who owned it—none whatever. It did, however, to the families of these 2500 workmen. The former collected their fire insurance and went on and rebuilt. The latter waited—many of them—till the rebuilding was done and they could go to work again. From a Philadelphia paper we read : "The woolen mills of —— have been shut down and ten thousand working-men are without employment. The proprietor says he can buy, while the raw material is so dear, cheaper than he can manufacture, etc." The shutting down of this mill meant little to the owner—by his own admission, in fact, he was benefited. He probably laughed at the necessity of lapsing his

life insurance by reason of it ; but how about the industrial policies among the 30,000 or more persons represented by these 10,000 working people ?

To sum up, there is no force to this contention, but everything against it ; and it is only fair to expect that the nominal ratio of lapses in industrial insurance should appear large, for, as the brief facts we have barely touched upon testify, it results from natural causes, only partly preventable.

PRACTICAL IMPROVEMENTS IN THE OPERATION OF INDUSTRIAL INSURANCE.

There is much of meaning and significance in the work done by industrial insurance in this country, as we have here briefly sought to outline it. First, it bears unquestioned evidence to the fact that a legitimate demand has existed among the great mass of industrial people throughout the United States for some reliable form of family insurance adapted to the slender means at their command. Energy and skill may do much toward making a demand apparent ; they may, for a time, make things appear natural that are purely artificial. But they cannot maintain an abiding and increasing growth—they cannot command permanent prosperity—unless the service in which they are invoked is a righteous one ; unless the demand they seek to supply honestly exists ; unless the con-

fidence they invite is fairly deserved. Next, it may, we think, be justly claimed on behalf of the successful industrial companies, that they have been administered with sound judgment, with tireless industry, and with undoubted integrity ; in brief, that they have merited the confidence that has been accorded them. Still further, the value of the impetus it has given to the spirit of frugality and saving—of voluntary, not compulsory, thrift—especially among that portion of the community to which these virtues are supremely valuable, cannot be over-estimated. Although the business is comparatively young in this country, the outstanding policies already far out-number the aggregate depositors in all the savings banks of the United States—and if to these depositors be added all the policy-holders in the ordinary life insurance companies, the preponderance would still be in favor of industrial insurance ! There is suggestion and assurance of marked social improvement in all this—of an educating, uplifting principle that compels recognition, that commands respect and that deserves encouragement.

In proof of this contention we may affirm that, so soon as the business could be deemed fairly established in this country, concessions to the policy-holders began to be made, and every year has borne witness to progressive liberality in this

direction. Features have been adopted which would have been destructive of the business in its formative period. I may be pardoned for a few illustrations, which I will cull, if you please, from the experience of the company with which I am identified ; simply saying that the same spirit, though not, perhaps, in all respects to the same extent, has animated the executives of a number of the other companies, some of whom (and I say it with entire candor) may even regard their own concessions as equal, and perhaps superior. Among the first important innovations was the granting of paid-up policies, applicable to all adult insurances in force five years from January 1, 1892. To encourage these the company ruled that the agents should in their compensation not be charged with policies lapsed in order to obtain paid-up policies. Later, immediate benefits on endowment policies were increased. Subsequently, when the first panic struck the business, and mills and factories were closed, general business was prostrated and the industrial classes throughout the country were deprived of employment, lapses, in large numbers, supervened. To meet the hardship thus imposed, upon the policy-holder, so soon as good times began to dawn, we offered to reinstate, in full immediate benefit, all the lapsed policies throughout the country, a year old, the forfeiture of which had

been produced by the pressure of hard times ; further, to all whose policies were five years old (although the system of paid-up policies was not, at the time, actually operative), who had been forced to drop out by stress of circumstance, a paid-up policy was offered without restriction ; or, in lieu, a new policy without medical examination, in full immediate benefit, and without the payment of a penny in arrears. Many thousands of renewal and paid-up policies were called for as a result of these offers. In the several periods of industrial depression since, like liberality has been promptly extended. Later, the paid-up privileges were extended and made applicable to all existing policies, in force a prescribed time, that were ever issued by the company. Following this, a material increase was made in the amounts of these paid-up insurances. And later still a valuable concession to prevent lapses has been made by the writer's company. Whenever a policy lapses after being five years in force, the home office addresses a personal letter to the holder offering him the option of (1) a paid-up policy according to the company's rules ; or (2) the whole reserve on his policy to be credited in payment of weekly premiums as far as it will go upon a new policy, in full immediate benefit, for an amount which his old rate of premium will purchase at present age, without medical examination

and with privilege of continuance at the expiration of this extension of his insurance. Again, the pulmonary and consumption clause—under which death from these causes, within the first year of the policy, produced but half the amount otherwise payable—was eliminated, and the elimination was made retroactive, *i. e.*, applicable to all the policies in force. The form of policies was greatly improved by omitting the warranty in the applications for policies not large enough in amount to call for regular medical examinations. The whole contract was contained in the policy itself, which was avoided only in case of the insured having had a disease not mentioned in the blank space provided in the policy—a space large enough to attract attention. And to protect the holder from the consequence of oversight or misunderstanding, he was given the right, within two weeks after receiving his policy, to return the same and take back the premiums paid. Next, increased benefits were granted on infantile policies—at some ages doubling the insurance—with no increase of premium, and this was also made retroactive as to old, existing policies. Then, new endowment tables, both infantile and adult, were adopted, and by them it was provided that the paid-ups, issuable thereunder, should be paid-up endowments. Six months later a guaranteed dividend was added to the adult table, pro-

viding that, after the policy was three years old, there would be added to the amount of the insurance, at each anniversary of its date, while in force, a sum equal to ten weeks' premium, the same to follow the original policy, that is, to be payable at death or at the end of the endowment term. The same dividends were guaranteed to all infantile endowments after the insured reached the age of twelve. It will be perceived that this is a positive guaranty of an annual reversionary dividend of 20 per cent. of the premiums for a year. About the same date the company began the issue of what it designates as Intermediate Policies, for \$500, at low rates of premiums, both for life and endowment, the company agreeing to keep account of these policies by themselves, and to pay dividends, after five years, according to the earnings of that class of policies; such policies being designed for those to whom the ordinary policies for large amounts were impracticable, and who yet desired a policy more advantageous than on the weekly premium plan. At the end of 1896, although under no legal obligation by contract or precedent to pay a dollar, a dividend which cost the company more than \$500,000 was declared, and this was followed by the allotment of a like sum for the present year. At the beginning of '97 the Whole-Life Infantile table was abolished and all the Infantile policies

thereafter issued were made endowment policies. On them an annual reversionary dividend of 20 per cent. of the premiums for a year is guaranteed after the insured reaches the age of twelve. As we took occasion to remark in an earlier part of our paper, the great bulk (about 96 per cent.) of all the business now being written by the company to which I am related contains the endowment feature, so that the antique and senseless imputation of having to die to win is pointless, and the question of old-age provision, which is agitating other countries as a public measure, we are doing something in our way, to meet. During the recent war with Spain the industrial insured could enter the military or naval service of the United States without restriction and without extra costs. This applied alike to policies outstanding when hostilities were declared, irrespective of whether or no the policies contained a war-clause, and to all policies issued or revived during the continuance of the war. The internal revenue tax was also paid by the company and not charged against the individual policyholder. The same conditions applied to its ordinary business. In other words, the war made no difference whatever in the relations of the assured to the company, either as to freedom of action or to the cost of the insurance. Finally (as to this branch of the subject), ALL our Industrial policies

now provide that if their terms are not satisfactory to the assured, or if the conditions are not accepted and agreed to, the policy may, within two weeks, be returned to the company, and all the premiums paid will be refunded. This gives an opportunity to correct misunderstandings, if any, and to obviate future causes of just complaint. Death claims, which now average in the single company spoken of, about 200 in number per day, are paid by telegraph as to all outlying localities, and by messenger or mail to points contiguous to the home office—in either event action being taken immediately upon receipt of proofs.

GOVERNMENT INSURANCE IN GREAT BRITAIN.

Reverting again to the general subject of industrial insurance, and to matters more or less collateral thereto, brief reference may not be inappropriate to the plan of Government Insurance in Great Britain, instituted under the Gladstone Ministry in 1864, for which wonderful success was confidently predicted. The amounts to be insured were from \$100 to \$500, applicable to ages 16 to 60 inclusive. The premiums were due fortnightly, monthly, quarterly or annually, payable at some 9000 selected post offices, where applications could be made and policies obtained. The latest available returns showed 9065 policies in force, insur-

ing less than three millions of dollars! This was the result of 29 years' operations! The cause of this failure may be attributed variously: the minimum limit of insurance and the minimum age are both too high to meet the wants of the Industrial classes for whom the plan was designed; the number of selected post offices is too small, and the formalities required (as in all Government performances) too complicated. But the main reason has been the absence of personal motive and effort on the part of the Government officers—in other words, the lack of an aggressive agency system. Both the private companies and the Friendly Societies enlist members, either through energetic agents in the interests of pure business, or through "brothers" in the interests of companionship and mutual help. This Government plan has failed in not going for, and seeking out, the customer and then delivering the goods at his door—features that seem imperative to all modern life insurance, wholesale or retail, but especially to the retail, and that are to be credited with the immense development of life insurance in the United States. A great engineer was wont to say that an invention which was no one's property was useless to mankind; but give a man an interest in it—tell him to make his living out of it—and he busies himself in urging its merits, in adapting it to the require-

ments of trade, and in presenting it in a salable form to the public.

INDUSTRIAL INSURANCE IN OTHER COUNTRIES.

As to the practice of industrial insurance and plans related thereto in other countries, in order to serve this convention as efficiently as possible we have corresponded with most of the countries of the world, and we remark, briefly, as follows :

In FRANCE, we are advised, Industrial insurance as practised in this country and Great Britain does not exist. It was introduced a few years ago, but, after a short trial, was abandoned. They have Friendly, or Assessment, Societies, giving members an indemnity in the event of sickness, an annuity for old age, and in some cases a small provision in case of death. These societies are local in their operations, and, in general, are limited to particular trades. Statistics and other information of value are not obtainable. It is rumored that one of the leading life insurance companies of France is now considering the introduction of this business in that country, and has recently had its representatives in London, studying the operations of the British industrial companies.

In HOLLAND the business exists but without official supervision and without the publication of annual statements or other returns. A large number

of Burial Insurance Companies, so called, are also in operation.

In ITALY industrial insurance is unknown. It was attempted a few years ago by a local Life Insurance Company, but was soon abandoned. The conditions are not favorable to its establishment in that country, mainly because the burial expenses of persons of inadequate means are provided by the various municipalities throughout the Kingdom.

In SWEDEN the business exists, but age 10 is the minimum age insured. The transactions of the companies are meager. They have also some four hundred societies, or orders, combining sick benefit with burial insurance.

In SWITZERLAND the business has a foothold, being transacted by four companies. There are also a number of small and (principally) local Assessment Societies, providing death benefits. These associations are not subject to public control.

In the RUSSIAN EMPIRE industrial insurance is unknown, the nearest approach to it being a form of burial insurance practised by four companies.

In DENMARK we find one industrial company now in operation and another contemplated. The former has been working since July, 1896, and has in force some 12,000 policies.

In SPAIN industrial insurance is not transacted, but Societies confined to particular trades exist,

which, for monthly dues, provide medical aid, medicine and sick allowance, and a provision for burial expenses.

In HUNGARY a form of industrial insurance has been in operation by the Life and Accident Companies for some fifteen years, and is reported as having materially increased in extent during the last five years. Statistics are not procurable showing the results attained. In every large town there are also local Burial Associations.

In SERVIA, and in the countries of the Orient, the business is as yet unknown.

In AUSTRIA industrial insurance exists in a small way. No home company was in operation there at the beginning of this year, but for three years past the Victoria of Berlin has done an Industrial business in Austria. Its last available report (1896) shows an income from its Industrial business of about \$42,000. The number of policies in force and the outstanding insurance are not obtainable. A company recently established in Vienna, the "Universal," is likewise doing industrial insurance in connection with its Ordinary life work, but no figures of its operations are at hand. In January of this year a company was also organized under the supervision of the "Landtag" (the Provincial Legislature), and the publications of this company show that it purposes doing an Industrial form

of life insurance. There are a great number of Societies in each town or province, limiting their operations to special trades or occupations and providing a burial fund of from \$40 to \$300. No public reports are issued, and they are subject to the supervision of the police or the Governor of the Province.

In BELGIUM Industrial Insurance is found, being worked by one Dutch and two Belgian companies; the only one, however, pushing the work seriously being the Dutch company "L'Utrecht."

In GERMANY we are informed that 34 companies are transacting Industrial Insurance, having in force at the close of 1897, 2,390,962 policies, insuring 112,359,800, or an average per policy of \$47. Burial insurance is also in vogue, one of the largest of the companies reporting some \$13,000,000 of insurance in force.

From TURKEY, PORTUGAL, NORWAY and BULGARIA our inquiries have been unanswered.

In CANADA the last Insurance report showed 77,042 Industrial Policies in force, representing \$8,184,713 of Insurance. Two-thirds of this amount, however, is to be credited to the Metropolitan of New York—the only United States company transacting this form of business in the Dominion. There is one other organization, limiting its operations to the province of Quebec, and thus

outside the supervision of the Canadian Insurance Department, whose premium income is about \$100,000 yearly ; having 29,536 policies in force, insuring \$2,216,636.

IN INDIA, CHINA, JAVA, THE STRAITS SETTLEMENTS and SIAM Industrial insurance is unknown.

The same as to the South American Republics of URUGUAY, PARAGUAY and ARGENTINA, except that among the Italian communities, which form the largest foreign element in those countries, there are several private institutions or Friendly Societies, of which no published reports as to results are accessible.

The same also as to PERU, ECUADOR and BOLIVIA, of CHILI and BRAZIL, of GUATEMALA, COSTA RICA, CURAÇOA, of THE UNITED STATES OF COLOMBIA, VENEZUELA, SAN SALVADOR, HONDURAS and NICARAGUA.

In the WEST INDIES, including British, Dutch and French Guiana, there are Friendly Societies, or branches of them, such as the Independent Order of Odd-Fellows and the Ancient Order of Foresters, and a number of local societies (152 of such societies having been registered up to January 1, 1898), but the Registrar's returns give no idea of the extent of their operations.

In TRINIDAD an American, formerly connected with one of the United States companies, has re-

cently started an industrial company, known as the "Sunbeam Benefit Society, Limited," providing benefits for sickness, accident and death, with premiums payable weekly or monthly. It is reported as working purely on American lines, and it may therefore be heard from in the future.

In the BERMUDAS are two local Societies, one for whites and one for blacks paying such death benefits as an assessment of 4 shillings sterling upon the members may produce.

From CUBA and PORTO RICO the facts were unobtainable by reason of the recent embargo upon correspondence.

From BRITISH HONDURAS we are unadvised.

In MEXICO Industrial insurance is unknown.

In AUSTRALASIA several companies are operating, and various attempts have been made by still others, but they have resulted in failure. The Citizens' is the only company doing any business worthy of mention. 202,335 policies are reported to us as in force, the equivalent of about \$24,000,000 of Insurance, or an average of \$118 per policy. Some of the English Friendly Societies such as the Manchester Unity, have branches. Sick benefit and burial insurance organizations also exist, providing medical attendance, sick pay, burial allowance and a gratuity of \$50 to a member on the death of his wife.

From an Australian journal we are also informed that the Industrial Life Insurance Company of SOUTH AFRICA has begun operations, but its results thus far are insignificant.

In all of the countries thus referred to the ordinary business of Life Insurance is transacted by one or more of the Companies of the United States.

It will thus be observed that in many of the countries the seed-plant of Industrial Insurance exists in the form of Friendly Societies, Burial Clubs and the like, and from these will emerge, in due time, organizations based upon scientific and reliable data such as have marked the development of the more progressive countries.

COMPULSORY INSURANCE, ETC.

Again, as related to our general theme, a cursory glance may, perhaps, be admissible at the movement in many countries toward schemes of insurance among wage-earners, embracing provisions for Old Age, Sickness, Accident, etc. Along this line we find in various European countries Compulsory State Insurance where the State practically takes over the insurance business, so far as the working classes are concerned, and makes it a branch of the regular operations of the Government, making it, not optional, but obligatory upon the classes it seeks to benefit. Germany, Austria, France and

Roumania have such systems. Then there is the system, next most prominent, of Voluntary State Insurance, by which the State endeavors, by the creation of suitable institutions and the offering of special inducements, to lead the working classes to voluntarily insure themselves—a policy identical with that which has dictated the creation of national systems of Savings Banks. The best examples of these are in France, Italy and Belgium. Next follows a system of institutions privately organized, but controlled and aided by the State, occupying a sort of intermediary position between the State and purely voluntary institutions. It enacts special legislation in regard to them. We find this plan in Switzerland, Italy, Belgium, France and other countries of the Continent. The fourth class is where the State does not interfere at all, and consists of those funds voluntarily created by employers of labor for the purpose of aiding their employees. In some of the European countries there is scarcely a railway, mining or other large industrial company that does not maintain some sort of a fund of this description. In England most, if not all, the railway companies have such institutions. They exist, too, in the United States. The Baltimore and Ohio Railroad was the first to organize an Insurance Department for its employees. The Pennsylvania Railroad followed. In the first it is obligatory, in

the second voluntary. The latter company would like to make it compulsory, but it has refrained in deference to the wishes of its employees. There is a feeling, among the working classes of America, of independence—a wish to spend their money and meet their needs according to the dictates of their own judgment. These several schemes have been followed by the plan (voluntary in its operation) of the Chicago, Burlington and Quincy Railroad—and along the same lines by the Philadelphia and Reading—the Plant system of Railway and Steamship lines—the Lehigh Valley, and perhaps others. Over 100,000 members are embraced within these various plans—the oldest of which has been in operation some eighteen years. Again, there are numberless schemes providing for death, sickness, etc., etc., among the various labor organizations throughout the United States, all showing the rapid development and the vast application of the Insurance idea, and bearing testimony to the fact that its great field of thought and operation is largely directed toward the betterment of the working element, or the industrial classes, of the country.

A GLANCE AT THE CONDITIONS CONNECTED WITH
THE ESTABLISHMENT OF INDUSTRIAL INSURANCE
IN THE UNITED STATES, ETC.

Approaching our conclusion: it must not be

assumed that the planting of the seeds of Industrial Insurance in the United States has been among beds of roses. It has been confronted by opposition—at times of the most virulent nature. It has literally come up out of much tribulation. Applying for authority to work in the very State whose hospitality this Convention is to-day enjoying, we were answered in these words: “Your business is, for obvious reasons, wrong and against public policy, and a license is therefore respectfully denied.” A certain strabismic Governor of a prominent New England State, in a speech delivered while seeking re-election, said: “It will be seen on page 8 of the Insurance Report, that the Commissioner recommends fully what is euphemistically called ‘Industrial Insurance.’... This is not legitimate Life Insurance at all.... Such insurance is against public policy and ought not to receive public recognition in this State.... It should be discountenanced by every one in authority, and I, consistent with my duty to the State and with my conscience, cannot retain in office a Commissioner who advocates it.” And, thereupon, for this offense and for making what he termed “favorable mention” of six companies (four Ordinaries and two Industrials), “I caused,” he said, “the Commissioner of Insurance to be turned out.” Other States were like-minded as to

the admission of the companies, and by still others a frigid welcome was extended.

Parenthetically, we may be pardoned for asking how it could be expected otherwise! We have had about 225 Insurance Commissioners in the United States since Industrial Insurance was inaugurated. Imagine 225 varieties of State supervision! Does not this bear noble tribute to the inherent virtue of the business?

With its growth, however, this opposition, or unfriendliness, has gradually disappeared, and for some years past most of the Commissioners have maintained a friendly and helpful attitude, and some by official utterance and by personal effort, have rendered invaluable service in helping to defeat scandalous attacks upon the business. These attacks have been principally made by members of various legislatures, occasionally (though very rarely) impelled by equal parts of good faith and of pathetic ignorance, but generally inspired by some statesman self-organized into a Ways and Means Committee of One. The attitude, also, of some miscalled "charity people" throughout the country has been as vindictive in motive as it has been ludicrous in result. While some of the most sensible utterances on behalf of the business have come from broad-minded men and women whose lives are devoted to the proper

solution of the complex problems of poverty, to which they bring rare skill and consummate good judgment, and who perceive in Industrial Insurance its power and potency for good, there have been vicious attacks against the business instigated by old ladies of both sexes impelled by love for the "dear people," who instinctively froth at the mouth at the simple name of Industrial Insurance, and who from time to time have revelled in hysterical attacks against its progress. The operations of some alleged charity organizations would be lost in obscurity—and the dear public might forget its duty to their treasuries—if they failed to sally forth, once in so often, to emulate SAMSON in smiting the Philistines. We do not expect these incursions, either from the statesmen or the charity people, to ever wholly cease, for new recruits are coming to the front constantly, who, for the first time in their innocent lives, learn that there is such a business, or who, scorning, as they claim, the clumsy methods of predecessors, propose to show that really "up-to-date tactics" are all that is needed to wipe the business out of existence.

Still another source of attack and abuse has come from certain newspapers, the breed of which will probably never die out, which, perceiving the alleged "monstrous abuses" of the system, are impelled by a high sense of duty to the public, whose

servants they are, to expose its iniquities. Sometimes they have submitted their views in "proof"—so careful lest any possible errors be committed! Occasionally their columns have been open for reply—at a dollar a line and a one-half page "Ad." for a year. Then, again, now and then, one has tenderly told us how pained he has been at the necessity of the exposure—but a little later on it has apparently been more painful for him to know how to stop. These, we repeat, have been a part of the pains and penalties of prominence, and they will doubtless continue till the millennial dawn.

It is along the lines of these attacks that the State Supervisors can render incalculable service to the public and to the companies, if they are so disposed. Any action taken, however, favorable or unfavorable, presupposes thorough knowledge of the thing judged. If the opportunities of a Commissioner have not been such as to give him that kind of knowledge, he knows how and where to acquire it. The thorough acquisition, and the honest employment, of that knowledge, then become a matter between him and his conscience. But the same judgment which would constrain him to take no part in an attack instituted from without against a plan or a company with which he lacked sympathy, need not restrain him from active and earnest defense of a company, or a plan, which he regarded

as wickedly or unjustly assailed. Industrial Insurance, as we have before said, owes a debt—and it makes grateful acknowledgment of it here and now—to the honorable gentlemen at the heads of the State Departments (with but minor exceptions), who have refused to see it assaulted and besmirched by the attacks of ignorant or vicious men. The business has nothing to conceal. It is the friend of sunlight. It is willing and wishful that from school-house and press (the honest press), by individuals and by organizations—on the forum and from the pulpit—its claims should be discussed, not in the interest of particular companies, or their agents, but in that of the public and its coming generations. Reputable companies have nothing to fear, but everything to hope, from the most thorough discussion of their plans and purposes, if made with frankness and intelligence. And upon this platform of principle and purpose the Industrial Companies will continue to invoke, as they trust to deserve, the considerate judgment of the insuring public and of those charged by the state with their protection.

MORAL HAZARD IN LIFE INSURANCE.

JOSEPH A. DE BOER :

MORAL hazard in life insurance is that something which adversely affects its business results. It arises from unknown or problematical sources. Their contingent influence is always non-calculable, even when its effect are clearly recognized and observed. The conditions which foster moral hazard are ignorance, self-interest and moral cowardice among those by whom and for whom the business is being done. It may have an honest or a vicious origin and may originate by strong combination of all these forces at one time or through a species of their loose alliance at different times; but the elements of this form of life insurance hazard usually co-operate.

It is also ubiquitous and its potential force may be said to be commensurate with the average morality and intelligence of all the people who control the operations of a life insurance office, directly or remotely. What form it shall take,

or what influence it shall exert, depends, to some extent, upon customs and applied management. The customary determines the moral tone.

It is also peculiar of moral hazard that its blows almost invariably fall unexpectedly, but scarcely ever that some manager could not say: "I had some sense perception of its approach." When this occurs, either courage was wanting to combat the admission of this hazard, or, else, local conditions of some kind suppressed the judgment of an intelligent minority. For a great company is a little cosmos, or, better yet, a government, usually oligarchical in form, sometimes monarchical, but always a nominal democracy. It is a democracy in spirit, an oligarchy in practice and a monarchy, in some few cases, by proxy. It deals with affairs of national magnitude, and with problems of such vast and varied complication that its work will very likely be best performed by a representative oligarchy of intelligent and interested directors and with the least possible interference by outside supervision. Distributed responsibility among trained and experienced specialists will undoubtedly attain the best results, provided the specialists themselves co-operate. For life insurance has its essential departments of work, the actuarial, the medical, the financial, the management of business matters and the field. These must con-

tribute to the general purpose, the creation, care and settlement of life insurance trusts. Anything which affects the influence of the responsible officer in charge of any one of these great departments of work, or disturbs their mutual co-operation, is moral hazard.

The mortality and interest assumptions are well understood. Their applicability to the calculation of varying benefits is also appreciated, by which mean their limitations for commercial purposes. This limitation is expressed by the usual contracts of Life, Endowment and Term Policies. Not much is gained by deviation from the simpler forms.

It may also be said that the substance of life insurance falls within this definition. The modifications under the title of non-forfeiture, indisputability, installment benefits and conversions being logical extensions of the major guarantees. The ultimate experiences under these multiplied options is as yet not clearly understood. Their liberal character bears, I think, upon the institution's potentiality as a surplus maker, and will necessitate hereafter restricted dividend returns and a constant, conservative valuation of all assets.

It does not appear, looking back half a century, that there is any moral hazard in the mathematics

of the business. The calculation of net rates for contingencies based upon single lives is understood. Nor yet in the adjustment of loadings for the purpose of management expenses and extraordinary accidents of experience ; but there is an undefined danger in continuing a practice which impairs the net premiums on new business so seriously as is now the case. In my judgment, new business ought to be secured under circumstances that will admit of treating it upon a net valuation basis more nearly in accord with the mathematical facts. If the next decade shall witness a deficit in reserves at the end of the first policy year, it is an error and an undoubted source of hazard to continue putting up the necessary reserves. This is the great problem which now demands solution by common consent, but competition, often most dangerous to those institutions which are founded upon other than mere social and industrial considerations, will probably continue to retard the solution of such impairments.

Nor does there exist a serious doubt as to the general merit of the mortality assumptions on which our offices have been doing work. The interest assumption, however, is a greater source of debate because it involves, from its own nature, a greater range of details. The present tendency is to accept three per cent., and this is a very whole-

some and conservative tendency. For, accepting these assumptions, there is not the slightest ground for holding that our companies will not make the most ample provisions for meeting every pledge and guarantee, made upon the level premium plan.

The assumption of chief consequence to level premium insurance is interest and margin ; to assessment and natural premium insurance, mortality and margin. To offset moral hazard from an impairment of these assumptions, the former must have regard to its investments, both from the standpoint of their quality and their necessary earning capacity, and supplement all this by holding to an actual general surplus addition of at least from eight to ten per cent. Assessmentism, etc., must keep within its provision for expenses and at the same time maintain a special fund to meet all accidental extra mortality. But, then, is it not now reasonable to doubt the permanency of all schemes of life insurance which postulate a system of increasing risk on increasing premiums or assessments ? It hardly matters, as we look toward the middle of the twentieth century, whether assessmentism was imperfect generalization or not ; whether capacity or fraud dominated a part of its origin and operations ; whether ignorance or a true desire to cheapen the benefits of life

insurance, or mendacious speculation fathered their disastrous results. The facts are that, however reasonable this pseudo-insurance may appear in theory, its application, as industrial society is organized, is wanting in hope. The old line insurance has encountered its competition with absolute success and with increase of public confidence in itself from the demonstration, which, pitiful enough, has proceeded upon a most gigantic scale. Politics has met it in the lobby, supervision has dealt with it in reports and courts of insolvency have passed upon it in practice. But, gentlemen, nowhere has this pseudo-insurance left traces of more permanent regret than in the desolate homes of the fatherless and the orphans. No matter how the experiment has been varied, the registered result is the same. Insurance is not cheap when it fails, nor economical when it makes no return. It is not sentiment to say that men who practice life insurance in any capacity, with any regard whatever for their fellow-men, ought to be governed by the greatest precept of their business, that their first duty is to make insurance absolutely sure. Assessmentism has often proved itself a moral hazard to the people. Industrial Insurance, that lusty child of ceaseless vigilance and unprecedented activity, proves its right to exist by its power to perform, but teaches

the necessary lesson that life insurance brought within the reach of the poorer classes cannot be effectively done except at the greater cost attendant upon every form of retail transactions. Assessmentism, done by wholesale and at a discount, upon a scheme at variance with the social and industrial conditions of the people to whom it is addressed, suggests that its operations can only be insured, as a system, under control by the state. Its unrestricted and unlimited operation in the hands of a few men is morally wrong.

I do not mean to affirm that the level premium system has no room for improvement, but think, rather, that, with time, there will eventuate an even more equitable, economical application of its benefits to the needs of American Society than already exists ; and our present policy system is certainly without comparison in the world. But against the moral hazard of assessmentism our legislators are in duty bound to protect the people.

It may be in order to insert here a transcript of assessment history from the Massachusetts Life Insurance Report for 1898, page XVII : " Following the passage of the general assessment law of 1877," so runs the story, " sixty-two assessment companies, as has already been said, were almost immediately organized. Every one of them has now departed, some going in infancy, some in child-

hood, while only two lived to be of much consequence, and both of these are now having their bankrupt estates administered upon by order of the Court."

There is no more sorrowful narrative now in print than the statistical record of the many forms of impossible insurance organizations of one kind and another, which were tabulated by the competent Jenney in the United States Census of 1890. It would not have been very much out of place to have starred the following foot-note, double headed, under these reports :

The State is responsible for every form of long continued commercial impossibility, whenever the state creates and ostensibly supervises it. It is therefore debatable whether these statistics do not more properly belong to a chapter on Practical American Politics than American Life Insurance, but they are given here because by title, at least, this is their nominal place.

The next factor in a system of life insurance, approved by experience and projected on moral assumptions, is the selection of risks, which is by no means the exclusive function of the medical examiner. For the custom now is to identify compensation with business getting, prompt payment with acceptance of proofs, and to divert hazards out of the ordinary into collateral but different

channels of risks, by a material and most liberal modification of the policy, as compared with what it was a decade or two ago. The difference of a drop determines whether the solution shall present an alkaline or acid reaction. So, also, the selection of risks, or, rather, the eventual composition of the company's risks, will be affected by some material practice or condition of management with the origin or application of which the examiner himself has no concern. The field, as we call the Agents, demands in its own right and of necessity, certain practical conditions of work: A range of entry ages from at least twenty to sixty, sometimes from fifteen to seventy; a maximum policy denomination in excess of the average policy amount, and ranging from \$10,000 to \$100,000; more recently the extension of its market to woman, who, satisfactory to say, now stands with man on a substantial equality as a life insurance risk. Its non-forfeiture, incontestability, availability, convertibility policy control by the insured and surplus options for every form of annuity income or insurance reversions. Thus, all ages, both sexes, every amount, and the broadest range of policy options are already involved in this play of constantly shifting contingent values. The fact that the evolution of the life policy has been one-sided and toward the policy-holder cannot be over-

emphasized. It is a reason enough for holding that selection at entry should be purged as much as possible from moral hazard in order to give the companies which guarantee so much the quality of insurance which, for that reason, they so much require.

The expression "moral hazard" may now require a further definition. While it is not often found in the literature of the business, it occurs quite often in private correspondence with the field. In such event, it more often represents an experienced judgment than a demonstration, but it exists there, and its existence is recognized as a factor in selection by the many rejections recorded for this cause. The learned authors of "Stratagems and Conspiracies to Defraud Life Insurance Companies" say of the cases edited in that suggestive work: "Collectively they emphasized as never before the increasing importance of scrutinizing the moral hazard as closely as the physical risk, and the need of more watchful attention to the question of insurable interest and its bearing upon assignments." Well, with what does the collection deal? With pretended death, speculative insurance, homicides, poisonings, suicides, and with certain problematical and nondescript cases; in short, with criminal selection. This form of hazard must naturally be encouraged through liberalizing



policy conditions ; and it is, therefore, particularly interesting that the work from which this quotation is made also hints at criminal negligence on the part of managers themselves. For with propriety is it intimated that ambitions for great lives on the part of the companies and a great remuneration on the part of the agents, may have induced, to quote more directly, "The placing aggressive weapons in the hands of intending assailants." I infer from this wording, which contains some truth, and from observation also, that there may be an undue and immoral haste in accepting proposers, a lack of local inspection of the unprejudiced variety, and a disreputable competition. Perhaps, gentlemen, it is wrong to apply the adjective, "disreputable" to modern life insurance competition, but I had in mind the saying used some six years ago before this convention by Mr. D. P. Fackler, who reported an officer as having said that "Life insurance was the only business in which competition had not benefited the public." This is true in the sense that it has not reduced costs ; for attempted reduction of rates was murder of the insurance. It has not improved solicitation, but developed, to the contrary, twisting, rebating, and pernicious literature. It has not improved supervision, but tended, rather, to make that more burdensome. Neither has it reduced the expenses of

management, of which increase a part is abnormal and another part is legitimate, because due to a higher order of field work and the general change in the living conditions of the race. Competition, however, has contributed to a broader development of guaranteed protection as represented by non-forfeiture ; but, as Mr. Fackler pointed out, dividends have been curtailed to apply on expense account. And this has in it greater moral hazard that management expenses should consume the entire margin and a considerable portion of the net premium as well. There is self-evident moral hazard in this condition of affairs, which leads us up to its most potent offset, vitality gains. There is moral hazard in selection, due to the system of insurance itself, over which assessmentism has little or no control, but which, in level premium insurance, is automatically regulated in a varying degree, especially when official and professional skill in selection projects it rightly in the first place. One common check upon adverse selection exists already in the interchange of declinations. I have never learned from those who were able to observe its workings fully that this service has not proved an efficient, proper and economical device. The moral interests of life insurance demand that it be retained and perfected, and that it be employed in confidence and with honor.

You will not fail to notice, gentlemen, as you read the criminal life cases to which your attention has been directed, as, indeed, the editors point out, that the Bench, with scarce exception, have usually tried them with nice discrimination and most intelligent attention, whereas injustice was dealt out, if at all, by a prejudiced or unintelligent jury. It is also intimated that not the least unfortunate results of such impaired verdicts consists in the encouragement which they extend to fresh attacks of criminal selection. It would be equally absurd to advocate the abolishment of the jury or the refusal by companies to litigate fraudulent claims upon the ground that justice cannot be had. For trial by jury is a sound and permanent factor in self-government, and litigation becomes a duty when a claim is unjust. It may be more practicable and cheaper to settle such cases out of court, and to take credit in display advertisements for being non-litigious; but, that is really quite as immoral as not to pay a just claim on a contract which was fairly made. It may not always be possible for a company to obtain justice from a jury or the legislature; but that is also true of the individual in his dealings with corporations. They must acquire a better understanding with each other, since injustice is always a grave mistake, and, in the long run, dangerous to them both. But, since we must

have a jury and will have cases to try, why not make the public more intelligent as to the upright and honest character of our regular life insurance companies, and instead of spending so much money for advertising unintelligent balance sheets, ratios, competitive exhibits and citation of names, put up campaigns of useful information? The facts are good enough to disseminate, if attended by an appropriate moderation in conduct on the part of those who represent the business in any capacity. When the people have the idea that the leading companies are fair, and not secretive; when business is sold truthfully and taken care of economically; when insurance is supervised intelligently, and just claims are always promptly paid, the companies may get a hearing and their cases may be read not with the prejudices of naturally adverse jurymen, but in the light of truth. There is one note of consequence, however, in this connection, namely, that the classes from which our juries are usually drawn have the general impression that our life offices, like other corporations, belong to the Directors, or the officers, or even to a single man. They do not imagine that in fact and in substance they are the property of thousands of widely distributed fellow-citizens, and even, as in one case, to some two millions of our own people, bread-winners all.

All this is, of course, a bit empirical, old-fashioned and commonplace, but as Mercutio said of his wound, "'twill serve." While, therefore, no pretence is made to giving a money value to this important phase of moral hazard, I yet believe in the wisdom of its recognition, and that publicity is the best antidote against all forms of corporate insolvency, unregulated power and centralized influence. So, in the long run, the right practice for life insurance is to anticipate litigation by clearly drawing their contracts, by guarding against criminal selection, and then, whenever an unrighteous, fraudulent claim or immoral demand does arise, to fight it, whenever there is a fighting chance. The fear of being regarded litigious should be held in dishonor precisely as the citation of trivial or technical matter should be eschewed. There should be an honest issue against the dishonest and that issue should be pressed on its merits without fear or favor.

There exists a yet greater moral hazard in life insurance selection, due to the insufficiency of data, or to concealment or misrepresentation of data, upon which a selecting officer is asked to pass. It is a curious fact that while medical selection is of great value to the business, its right to exist has been questioned. It is an essential. But when a declination is recorded, the solicitor loses

a client, the proposer loses his policy, the General Agent is involved in explanations with his sub-agent, and every man of them is not unlikely to believe that the Company has lost an opportunity. But selection is as necessary to maintain the mortality assumption as investment to maintain the interest assumption, and no fault should be found if proper rules to obtain good security are enforced. Both require expert, professional knowledge, and both require an exercise of judgment, on separate considerations, which judgment, in the case of medical selection, especially, is often more easily expressed as a dictum than explained in detail.

The medical blank may usually be analyzed into five factors: (1) The description; (2) the statement of personal habits; (3) personal history; (4) family history; (5) physical examination. The family history is rarely irrelevant, sometimes extremely material, and always helpful; but the answers relating to the applicant are of chief consequence. Each of these divisions include a large number of questions, the total, even in the simplified blanks, reaching into the hundreds. These are material in varying degrees, by comparison with each other, or in combination. The medical report constitutes a composite photograph of the risk. The negatives are good, bad and indifferent. You ask, "Why mention this?" Because it is

common to forget it. The proposer may be an actor in character role, or may be taken in a bad light, or by an incompetent. For other reasons the picture may flatter him, as the negative has been judiciously touched. The elements of distance, of rural and city examiner, of field supervision, of local agency work and of Home Office discipline, have their respective effects. At every point in the process of selection there is possibility of subversion, suppression, inaccuracy and even fraud. It is thought, for these reasons, that moral hazard exists, and that this unknown error, notwithstanding the law of compensation, makes for increased loss. Anxiety to clear the desk, impending friction with influential agents, pressure from ambitious managers, the incidents of social, financial or political influence, an honest wish to encourage the field, the temptation to assist enthusiastic competition, all play their several parts in selection, the degree of their influence in forming judgments depending upon the general make-up of the office and its men. I do not know if this kind of moral hazard is more or less than in former years, when volume of business is considered, but think it is less.

Mr. Emery McClintock, in his essay relating to the "Effects of Selection," has recognized the agencies of (a) unconscious dishonesty ; (b) office

and agency efforts to secure new business ; and (c) the office action in rejecting undesirable risks ; to which add, (d) conscious dishonesty and fraud. It is the selection, at entrance, which is of chief concern ; but exit selection should also engage more fully the attention of managers than has heretofore been the case. The following exit agencies have been noted ; (a) changes in the circumstances, motives or opinions of the insured ; (b) facilities for withdrawal introduced by non-forfeiture ; (c) office efforts to induce unsound lives to withdraw ; (d) competitive efforts to influence surrenders or twisting ; (e) temporary necrosis of the company. Entrance selection is affected by the company's reputation, the form of its contracts, the average ability, experience and character of its agents, and the ability, judgment, experience and character of its official staff. The best protection against the ill-effects of exit selection is the maintenance of a permanent membership confidence through economical management and conservative investment. This, however, is the product rather of long endorsed general conduct than of specific acts. At entrance, on the other hand, specific acts of judgment will permanently influence the quality of the company's composition. Selection is, therefore, not to be over-estimated or limited in influence, but, rather, to be viewed as one of the great life

insurance functions, ranging by the side of calculation, investment and management.

If that wonderful Profit and Loss Account for 1895, 1896 and 1897 signifies anything, it signifies this : Surplus interest declines because of general economic conditions ; surplus margins contract because of expanding management expenses ; forfeiture profits decrease because of non-forfeiture endorsements, and enfranchised policy conditions. The one surplus factor, *mirabile dictu*, which often best retains its vitality, is mortality.

The general summaries emphasize the wisdom of giving to selection its appropriate place. I make suggestions upon this subject notwithstanding, with extreme diffidence, because of the many and varied difficulties involved : (1) The time period of indisputability in contracts should be co-terminus with the close of that policy year in which non-forfeiture begins. Material error, discovered within that period, including special reservations for cancelation, should be enforced. (2) The Department of Selection should be left unhampered in its work, but should include arrangements for an average judgment ; for business or mathematical experience is frequently required. (3) Doubtful risks should be reviewed by a committee, composed of those men at the Home Office who have the best qualifications for that work. Doubtful cases should

be discussed in committee and be disposed of by a majority vote. (4) The appointment of medical examiners and their service should be divorced from the field. They should be educated by tenure of office to co-operate with the office in a purely professional way, always having regard to its approved lines and special features. Within proper bounds, the examiner should give the local agent every assistance in his work—the good word, the timely suggestion, and prompt service. But the company must have a professional, independent, intelligent review of the risk by the man on the ground. That is worth what is now paid for it—if you get it. If you do not, the money disbursed for local selection is wasted.

The objection will be made to this scheme that it is impracticable, that it invites friction, the suspending of new issues and a general waste of time. It is necessary notwithstanding and when once thoroughly inaugurated will be sustained. The public itself has an interest in careful selection. Every company presents its own files of adverse selection, its bankrupt suicides, and its mendacious Simons, dead. Why hurry—when occupation is not defined? When extra-fat men have not been weighed? When men of advanced years display a record of albuminuria? When past and present habits are involved? When a personal illness,

which may have been serious, is popularly described? When aged proposers present a negative family history? It is immoral and invites disaster to pledge trust funds upon a risk not fairly described. "*Femina mutabile et varium*" and is much more difficult to select. It does not matter much if this be due to her larger power of concealment, to her more limited business instincts, to her greater want of average insurable interest, or of her being more difficult to place by life insurance examiners—the fact is that woman, from a business standpoint, is more impossible. Especial care, in her case, should therefore be exercised and no amount of what is vulgarly termed "kicking" should prevail against the reasonableness of this general proposition. As a safeguard against moral hazard in entrance selection, it is important that every phase of this work and every material fact should be diligently, persistently and impartially sought out and applied. An interesting species of moral hazard, which must be referred to under this title, is that which results from local influence particularly in small communities, where man knows man and where there exists of necessity a very close business, social, political and family relationship. This condition promotes identity of interest and this, in turn, originates a kind of impaired judgment, when opinions are to be expressed. For

at this stage in the evolution of man's moral perception, it cannot always be expected that the usual fee will buy an honest opinion, if a rejection based upon that opinion, may lose to its giver either local influence or a larger pecuniary interest. This, more than inferior capacity for making physical examinations, is to be dealt with as a factor in rural as distinguished from urban selection of risks. I do not wish to be regarded as charging dishonesty to country examiners as a class. I merely recognize their human nature and the effect upon human judgment of their surroundings and will add that, as a class, I consider them most excellent and able men. The integrity of opinions in all departments of life work is usually commensurate with the ability of their givers, precisely as lack of capacity breeds hypocrisy and lies. Every small community contains men whose professional reputation is measured by character and honest worth ; but that sparsely settled fields, far distant from our offices, constantly present the other extreme is also certain. There, as elsewhere, snap shots are taken for "auld acquaintance sake." Against the ultimate bad effects which this form of moral hazard may exercise, use may be had of special instruction, but, better still, of most careful appointments in the first place, supplemented by frequent personal inspection both of these officers

and of the risks which they advise. Neither is omniscience ascribed to life insurance officials who doubtless have an ample breathing space in their respective spheres and make, no doubt, occasional mistakes. But if their average judgment is sound, retain them and support their action. Do not weaken or dissipate their energies. If not sound, find other men—but, let mutual life insurance of selected lives, at the outset of selection, be fair to itself. If the much-vaunted idea of science is to be retained in the business—pursue it faithfully and honor it, entrusting to the proper officials responsibility for insurance work, with power sufficient to maintain that work on moral lines. For, as Emerson set down in his “Natural History of the Intellect,” “Knowledge is plainly to be preferred before power, as being that which guides and directs its blind force and impetus.”

The third important species of moral hazard, considering, assumptions and selection the first two, is of investment. Cornelius Walford quoted over forty years ago, more aptly than he could perhaps do to-day, a Mr. Pocock to the following effect: “The parties, having the management of the office, should be well known to the mercantile world as men of substance, integrity, and intelligence, rather than persons with imposing titles, such as, in fact, are daily announced as managers

and directors of many of the speculations at the present time; for it should always be borne in mind that the great object to be attained is prudent management and a careful investment of the funds of the society." It is not unwise to recall the suggestion since upon the results of investment depend not only the success of the assumptions and of the whole scheme of life insurance, but, in a large degree, the profits, dividends or surplus, however called. The power which handles the funds is the great power and its management is almost always combined with an acquisition of more funds through old and new business accounts. Large life insurance funds cannot be handled over a long period of time without the experience of some loss. The problem grows, like the grasshopper, more of a burden as the funds increase. And so this matter of life insurance investments is extremely consequential, since investments and the management of income and outgo has its own moral hazard, like selection, though differing in kind. The president of a great casualty company has already suggested, if I rightly remember, the insurance of this hazard. For these investments demand the highest intelligence, the most conspicuous courage, the noblest integrity, the broadest experience and the most painstaking study, investigation and work.

Vast sub-division of labor is required and the conservative policy, which looks not for speculative profits, but a reasonable return upon the basis of a principal fairly secured. I have long been impressed with the fact that the best safeguard against whatever moral hazard is here involved is the universal adoption by all our companies of the three per cent. interest assumption, because that step would automatically insure, where integrity and wisdom of management prevails, more permanent and less speculative investment. This change of assumption has been criticised, and still is, as unnecessary and ill-timed ; but it is already being applied and, within a few years, it is reasonable to expect, that the companies, with scarce exceptions, will be united in this regard. Mr. Walter C. Wright, in his review of life insurance (American Statistical Society, 1888) explained its failures as due, primarily, to extraordinary eagerness for new business and extravagant outlay to procure it. He recognized auxiliary causes like panics and dividend apportionments beyond sure means ; but his germ thought was that the public placed too great confidence in mere volume, "which, when it has passed a certain limit," he said, "has no practical value whatever." Mr. D. P. Fackler subsequently elaborated this same idea when he directed attention to the money power

lodged in the hands of a few men, "possibly," he said, "only one man in each company" and he added "any great further increase in the size of our largest companies, will—to put it mildly—benefit neither the policy-holder or the public." He went further than this and his remarks will bear consideration, declaring, before this very body, "It is conceivable that companies might grow to such a size that they could not be properly managed by their own officers or satisfactorily supervised by the State; so that they would no longer yield the best attainable results for their own policy-holders." The safeguard, suggested, was legislation, suspending new issues when a limit of two hundred millions of assets was reached. It has not been adopted, but momentum continues to vie with control of these great machines. The first of 1898 discovered three companies with two hundred and fifty-three, two hundred and thirty-five and two hundred millions of assets respectively. The ten leading companies hold over one billion, and sixty-one million of invested funds, while the reported figures for forty-six companies were \$1,272,000,000. The ten Industrials, in addition to all this, held \$72,743,000, of which \$70,844,000 was held by three alone. It is probably safe to affirm that mere size will reach the limit of its own possibilities in time, at least, so far as the

insurance accounts are concerned ; but this cannot be predicated of assets unless, of course, new business is absolutely and definitely discontinued and then, only, after a time. We have the example of one excellent company, whose outstanding insurance has remained virtually stationary for sixteen years, but its assets have increased within that period some twelve millions of dollars. No criticism is here intended upon investment work. I would rather say that, with a due allowance for the support which that department has received from an average of widely distributed and varied investments, and from other recouping resources, inherent in the business as a whole, the care of life insurance trust funds has been for twenty-five years past the glory of management, as the development of business has been its achievement. Benjamin Franklin's remark is yet true ; for there is nothing to-day which surpasses, in point of strength, comfort and security to the individual, an investment in life insurance ; but that moral hazard exists in the application of fundamental assumptions to policy construction, in the selection of risks, in the impairment of net rates and in the investment of funds, each in turn due to a different set of conditions, should be kept in mind by the Directories and, so far as possible, they should seek for safeguards against its ill effects.

There now remains to be considered that other important feature of our life insurance system, its supervision by the States. And first of all, it is to be remarked, that this supervision has unfortunately been political in character and subject to the influence of the lobby. The managers have been fairly certain of their tenure, but the commissioners, not. This uncertainty itself is in the nature of a moral hazard because it involves uncertainty and inequality of supervision. Now, supervision by States has these defects: It is not uniform; it makes unnecessary demands; it fixes arbitrary measures of lapse settlements; it imposes heavy and unequal taxes; it arbitrarily changes its spots with change of officer. Some departments of supervision have a somewhat fixed character and purpose, governing themselves by precedents and carrying out their ideas with a reasonable persistence. Level premium insurance has not been much helped by State supervision, while the people cannot be said to have been always protected against speculative and unsound forms of insurance.

The fallacies sometimes had their largest run where State supervision was, in fact, most intelligent—but, at the same time, unable to give them timely quietus. Supervision was organized to protect the citizens of individual States; also, to

strengthen the public standing of the solvent companies. This supervision, as a means to an end, is not bad. It is to be desired in connection with great corporations and it is to be regarded as of service to the people. The character of State supervision, however, is deficient on account of the defects, already named, and renders the different forms of life insurance more costly to the people without always making it more safe. It seems sometimes as if State supervision had been outstripped and that it now no longer responds to the national character which life insurance has assumed. "*Qui custodiet custodes?*" The office should be taken out of politics and itself protected. Capacity and performance, measured by civil service standards, are the proper guides both for the selection of supervisors, and their continuance. I have no wish to enter into the merits of the argument for federal supervision, but feel confident, could that be achieved, that the costs of supervision would be reduced and its quality improved. For, think what we may the United States has developed so rapidly as a great nation, that public corporations, themselves national and international in their operations, and collecting and distributing the great values which life insurance already handles, cannot fail to be benefited in the interest of the public by being supervised

broadly instead of narrowly. At the same time, I confess that local supervision has contributed to the confidence with which the people of different sections have accepted our institutions. For they have faith in their own officers, whom they legally install in office by their ballot, or as the result of their ballot. It is a part of their self-government.

Nor would it be desirable, if, by any chance, National Supervision became a fact to exclude or even diminish publicity. What is needed is unified, effective supervision at reduced costs. This business will prosper most with a firm hold on the public mind. The cheapest and ultimate premium which it *must* pay to secure this hold is publicity and truth. For it belongs not to any man or set of men, but to the nation and may now be ranked as one phase of its national development, inspired by the energy, providence and thrift of its people. To quote from President Low: "Theoretically, I cannot believe that there is any reason why the demand for publicity in relation to the action of corporations should not be carried to any detail to which it may be necessary to carry it, in order to secure the result of absolute honesty, as toward stockholder, creditor and the public." He uses the words, "theoretically," and "may be necessary," which saves the quotation from doing honor to a

certain class of details which isolated supervision has more recently required us to transcribe. For supervision should stand related to the business in a friendly attitude—its proper limitations are expressed when we say it should not assume to make rates, to dictate policy forms, or to limit competitive expenses. It may with propriety continue to suggest a standard for assumed net rates, policy valuations and a minimum non-forfeiture. It is also wise to collect details of income and outgo, insurance issued and cancelled, and such other matters as may be deemed and really are essential to discovery or anticipation of unwholesome conditions. It will also serve the public by independently determining, at reasonable intervals, the present worth and quality of a company's investments. This work should be thoroughly done by competent men and without unnecessary duplication, expensive delays or annoyance. When so done, it will probably be altogether unnecessary to repeat the examination again for a period of at least five years. The wisdom of yearly investigations to the utmost farthing and detail is highly questionable. In any event, the results would be more beneficial and satisfactory to the public, if the relations between supervisors and the companies be maintained upon a peace instead of a war footing. To say the

truth, however, it has too often been the status that the companies might justly exclaim: "Write, cancel and be hopeful, for to-morrow we will have a new commissioner!" What a company, a regiment, rather, of noble, earnest public men have supervised our life insurance work! They are all gone from public station—but the institution by the grace of its own management yet lives to discharge its beneficent work.

What care you about rebating any more than he who makes it the *motif* of a charming novelette, or he, who declares that the way to stop rebating permanently is to give the agent paris green, in advance? The State cannot stop it without the co-operation of the companies; but, if it thinks it can and can also make rates, determine expense accounts, schedule commissions, make policies, limit indisputability, define a proper defence against insurance fraud and all that—why not legislate the companies entirely out of existence and let the State manage the whole business from day to day? It is a fair sequitur, although it will be said that neither supervision nor the public desire such a result. Well, if not that, simply learn and tell the people that this and that company is solid and fair dealing and likely to remain so for the future, and economize time, energy and funds. Then add, so far as may be if state supervision continues,

uniformity in all things, and thus contribute to the solution of the great problem of guaranteed protection. Competition will work out the problem of expense, etc., because its day has arrived. Less outside supervision and more inside management will be a good thing for the public, in addition to the good things they already possess. For by it the merchant augments his credit; the manufacturer perfects control over his estate; the capitalist swings his ship to this anchor; the artisan contemplates the approach of old age with self-respect; but, above all, gentlemen, no argument is better than the old story—it is the safeguard of the widow and the child. It crowns with respect the offspring of the average life, which is not great and rich, but “all the world” to them. Whatever cares for and protects it, protects them. So write upon the shield of life insurance the words of the Three Guardsmen: “One for all and all for one.”

ARE NON-FORFEITURE LAWS EXPEDIENT ?

AND

IF SO—WHAT SURRENDER VALUES MAY SAFELY
BE REQUIRED ?

DAVID PARKS FACKLER :

THE question for the present seems to narrow itself to what, if anything, should be required from the regular or legal reserve life insurance companies ; for, though many of the other life insurance organizations issue contracts which are practically the same as those of the regular companies, the State legislatures seem to consider them not amenable to legal restrictions regarding reserve, and consequently not in the matter of surrender value allowances. In several cases, however, these co-operative or assessment associations charge premiums quite as large as the non-participating premiums of some of the regular com-

panies for corresponding forms of insurance, and also make contracts requiring definite reserves of some kind or other. Moreover, the mutuality of many of these institutions is entirely imaginary, as they are often controlled by an inner ring and not at all by the insured, any more than any stock company ; but they have thus far escaped legislation of the character applying to regular companies, because they were supposed purely mutual. I do not intend by these remarks to make any reflections against any of these organizations, but only to show that they have no right to be considered more mutual than the regular companies.

All forms of insurance should be alike before the law, and no one system should be specially favored by the government. As it is, however, the States are guilty of inconsistency in imposing practically all their requirements on the regular forms of insurance. The regular companies are compelled to hold certain arbitrary amounts of reserve for all contracts that continue in force, and along with this, many States require them to give all policyholders, who break their contracts, certain allowances either in insurance or in cash, regardless of the circumstances under which the policies may be terminated.

Life insurance companies are associations of individuals, who either desire insurance for themselves,

or seek to do a safe and remunerative business as stockholders, and there seems to be no reason why the State should specially interfere with the liberty of citizens to control their own corporations thus formed, any more than it would attempt to control companies formed to do mercantile business. They are given no special privileges in return for which the State may properly demand control of their operations. Of course, however, all corporations like all citizens, are properly amenable to any, regulations requisite for the safety and highest good of the State and people generally. How far the State may wisely and beneficially supervise the action of its citizens, either singly or when associated together in companies, will always be a question on which opinions will more or less differ, and it will be interesting to consider what character of legislation in the past seems to coincide more generally with liberty, stability and progress, as a brief historical retrospect may give us some solid reasons for taking a definite standpoint, from which to view the important question before us.

The governments of the human race, so far as history shows us, were originally modeled after the family ; first, the father, then the chief of the tribe, and then the despot ruling with unbridled will over many tribes. After some generations, the injustice and cruelty often connected with this form

of government led many races to adopt something of a republican form, in which the State took the place of the despot as the source of authority. This form afterwards found its highest exponent in the Roman republic, which, for a time, combined considerable liberty of the citizen with great power in the State. Gradually, however, the centralized authority completely overshadowed individual liberty, the republic became an empire, and, spreading over the civilized world, threatened a complete extinction of individual freedom.

Fortunately for mankind, the spirit of liberty survived in Germany, even after Gaul and Britain had become latinized, and thence, after the Roman empire decayed, came the Saxon invaders, who swept away Latin civilization in England, and in that seagirt land implanted the principles of freedom, which thus continued to exist in their new home, even after their native Germany had become latinized through the introduction of Christianity from Rome. Thus it is that in England and the English-speaking countries, citizens enjoy very much more of that original Teutonic liberty than is now found in Germany itself, where autocracy, bureaucracy and red tape are rife, while in other lands generally we find paternalism, either of the Latin or of the Asiatic type. May we not reasonably hold that as the greatest happi-

ness and prosperity are found associated with what are known as Anglo-Saxon principles of government, therefore those principles are the best for the English-speaking race.

The principles of government of which the English-speaking races are the exponents may be stated to be, that government shall interfere with individual liberty no further than appears to be absolutely necessary, and that enterprises of all kinds shall be untrammelled and untaxed, except as the public good may clearly require. Among nearly all other civilized races there prevails the paternal idea of government under which the State endeavors to control its citizens in all respects, just as though they were in a state of tutelage, and would in all probability go astray unless closely supervised. The Anglo-Saxon idea assumes that citizens will probably act reasonably in all their treatment of others, and that each will exercise foresight and intelligence in all business matters. The paternal idea of government assumes the opposite—that citizens can not be trusted to deal reasonably and justly with each other and that the masses will not exercise sufficient intelligence and care to protect themselves against imposition. The Anglo-Saxon system makes it necessary that men should use wisdom and judgment in their daily business, and thus conduces to

increase their intelligence and self-reliance, while the paternal system, by placing, or *pretending to place*, safeguards on every side, tends to make them less keen and vigilant in looking out for their own interest, and thus indirectly saps the very foundations on which all political liberty must rest ; viz., the vigilant intelligence of the citizens.

Life insurance took its rise in that country, which is the birthplace of modern liberty, and has found its greatest development in that country and in its offspring in the United States, Canada and Australia. In this country, however, life insurance has been much trammelled by legislation, while in the place of its origin it has been left almost entirely free, and has developed naturally under the influences of competition and extended experience. Companies there are not required to hold any definite amounts of reserve, but only to make clear and definite statements of their condition, leaving the public to judge for themselves as to each corporation. The result has been that, speaking generally, English companies have been much quicker than American companies to adopt liberal features. Thus, while it is only lately that loans on [policies and cash surrender values have become the rule among American companies, they have been in vogue among British companies for over thirty years, as I showed some twenty years

ago in a circular giving extracts from the literature of about thirty of the oldest English companies, and urging similar liberality here.

In England the fiction that all laws come from the Sovereign has made people more jealous for personal liberty than here, where the power is supposed to come from the people ; consequently in some respects the liberty of the "subject" in England is less restricted than the freedom of the citizen in the republic.

Legislative intermeddling in this country has kept our companies from developing as freely as in England, and in some cases has injuriously affected the interests of the policy-holders : thus, when the New York Legislature in 1879 passed the present non-forfeiture law, it actually had the effect of reducing the paid-up policies given by some of the companies, because under the color of obeying the law they were able to give less paid-up insurance than they had previously felt compelled to give under the influence of competition.

As to the first part of the subject ; viz., "Should the state require the companies to make any surrender value allowances?" I think experience teaches that it is more expedient in an intelligent nation, such as ours, that the government should not attempt to dictate what allowances should be made. The same law would not apply with equal justice

to all companies under the same circumstances, or even to any one company at different periods of its history. A company which charges large premiums can afford to make better surrender value allowances than can a company with low premiums. The passage of a law on the subject tends to make it harder for a company to do business with low premiums, or on the non-participating plan, which hindrance is not in the public interest, for as a check on too high premiums and extravagance of management there is no more practical aid than the continued success of stock companies.

In times of prosperity, when business is easily obtained, a company can afford to treat withdrawing members much more liberally than in times of depression, when it may be impracticable to obtain new insurance to replace that which is withdrawn but a law would make no allowances for circumstances. The wisest expert can not surely foresee the future trend of the business and all the peculiar contingencies that may arise, and much less can the legislatures do so. The original Massachusetts non-forfeiture law was devised to suit only the simplest form of whole-life insurance, no other form being thought of at the time, but soon afterwards other forms were introduced to which it was grotesquely unsuited; even its author confessed its failure and tried his

hand at legislation again, only to make—in the judgment of all disinterested experts—a worse failure than before.

In this way laws, which may seem reasonable at this time, may prove to be utterly unsuited to new conditions existing ten years hence. Many thoughtful insurance men consider that the greatest dangers for life insurance are those which may come from unwise legislation. Against a higher mortality, even a temporary pestilence, against a low rate of interest and occasional losses from investments, they can provide premiums and reserves, which will probably prove adequate, but against the possibilities of unwise legislation no safeguard can be provided, as the danger is beyond calculation.

We come now to the second part of the subject ; viz., “What surrender values might safely be required by law ?”

If it be right for the State to legislate in any way regarding insurance, it must be admitted by all that its first duty is to assure the solvency of the companies and the final payment of all claims under policies that are kept in force. Any rights or equities of those, who discontinue their policies, must be held to be entirely secondary to the first and primary obligations just mentioned. Probably no one will deny this. It follows, therefore, that,

if any surrender values either in paid-up insurance or in cash are to be established by law, they should be on such a conservative basis that their allowance can not possibly endanger the safety of any company under the most disastrous circumstances and even if on the brink of insolvency. This is particularly the case with regard to enactments prescribing cash surrender values, for under such laws a company that is nearly insolvent might be rendered entirely so by large numbers of demands for cash values, compelling it to sacrifice its securities to obtain cash. It is clear, therefore, that the government should not prescribe anything more than a minimum allowance, but even such action is of doubtful expediency, for it is extremely unlikely that any company would refuse to pay such a minimum allowance, even if there were no law, while the passage of such a law might lead many companies to argue that the government allowance was about the equitable amount, and thus allow less than they would otherwise have done. As before stated, such was the immediate result of the passage of the New York non-forfeiture law in 1879 in the case of some companies.

If it be decided that the government should regulate surrender value allowances, it will generally be admitted that such allowances should only be in the form of insurance. The original contract

having been for insurance, an allowance in paid-up insurance can be made with less violation of, and change in, the original contract than any other way. If the withdrawing policy-holder is an exceptionally good risk a settlement in paid-up insurance will give the company a part of the future profit it would realize under the original contract, and it will only be necessary to compensate the company for losing the portions of future premiums that would have contributed to pay the fixed expenses, and in general have added stability to the company.

It may naturally be expected that I should suggest some general rule for computing paid-up policies suitable for adoption as a law, and I will endeavor to do so, assuming that only minimum amounts should be fixed by law. We must premise that the policy-holder is under contract to pay a certain gross premium, the collection of which, it is assumed, costs the company nothing. We may fairly assume that he is in excellent health, with a death risk only about three-fourths of that according to the Combined Experience table; for the average death rate in most companies for all the lives, both healthy and diseased together, is generally only about eighty per cent of the rate by that table. I would suggest this rule; viz., from tables based on a rate of mortality three-fourths

that of the Combined Experience, and with four per cent. interest, find the present value of the sum payable by the company; from that deduct the value of an annuity of the future gross premiums, as shown by the same tables; the difference will represent the cash amount required to carry the insurance without allowing further dividends; then find the reversionary amount, which this cash will purchase (according to the same tables), and it will be the paid-up policy, which the company can afford to give even under the most desperate circumstances, provided interest is not over four per cent.

This rule would give very small—if, indeed, any—paid-up insurance during the earlier years of a policy. For one of \$1,000 on the ordinary life plan issued at age thirty-five with a premium of \$25 a year, there would be no paid-up value until after eleven years; after fifteen years it would be \$57, and after twenty years \$333; all these are less than by the New York law, but after twenty-five years the paid-up would be \$476—or as much as by the New York law—and for all years after that the allowance would be much more than by that law.

For a ten-payment life policy of \$1,000 issued at age thirty-five with a premium of \$50 a year, the paid-up value after five years would be only \$329,

or less than by the New York law, but after nine years would be \$867, or more than by the New York law, which would give only \$600. The New York law has some of the absurdities of the Massachusetts law, and would treat this man, who is giving up only about one-tenth of his policy, just as though he were giving it all up. The payment of one more premium would give him a full-paid policy for \$1,000; but for the failure to pay that one premium the New York law would cut his insurance down to \$600, while by the more scientific method I have shown it should be at the very least \$867.

Competition already compels the companies to make liberal guarantees of paid-up insurance; in fact, the companies often guarantee more than they can afford, and there is really more danger that the companies will be too liberal rather than not liberal enough; for nearly all the companies under the press of competition are now giving larger paid-up policies than they should under all limited-payment life policies that are surrendered after a few years' payments. The reserves required for the paid-up policies are fully as large as those supposed to have accumulated on the original contracts, and, in fact, are much larger than the sums actually saved from the premiums after paying the heavy expenses that are now the rule.

Probably all will concede that if the government interferes to regulate surrender value allowances, it should prescribe insurance rather than cash. If, however, legislation should at length go further and determine the minimum amount of cash that should be returned as a surrender value, the calculation of the cash value should be made with reference to the paid-up insurance primarily allowable rather, than with regard to the original policy ; that is to say, if under the law a certain \$1,000 policy would on surrender, or lapse, entitle its holder to a paid-up policy of \$400, the cash surrender value, if any, that may be allowable as an alternative, should be computed for the paid-up policy and not on the original policy, for that is the only sure way of making the two values harmonize. With the paid-up policy allowance, made on a reasonable and safe basis, it will be a comparatively easy matter to make a fair estimate of the present cash value of such a reversion, which necessarily will be also a reasonable and safe cash value for the original policy, while it would be much more difficult to make a direct calculation of the cash surrender value of the original contract in such a way as to be in harmony with the paid-up policy and its cash value. Consistency is too little considered in these matters.

For example, suppose a man is told he can have

a paid-up policy for \$600, or else \$200 in cash and then asks whether, in case he takes the paid-up insurance, he can afterwards, if necessary, surrender it for \$200 or more ; if he finds that the cash value would be only \$150, he will be disgusted at the inconsistency, and probably decide to take the \$200 at once. This is one of the absurdities of the Massachusetts law, which proceeds to estimate the cash surrender value first and then deduce the paid-up policy therefrom. A man, who has paid nine premiums on a ten-payment life policy and wishes to take a paid-up policy, is taxed for a surrender charge just as though he were about to withdraw from the company entirely, though as a fact, he will give up only about one-tenth of his insurance. If he had entered for \$10,000 at age twenty-one, he would be told that his paid-up policy would be \$8,620, or his cash value \$2,637.80. If he takes the "paid-up," and then wishes to surrender it shortly afterwards for cash, he finds that its cash value is only \$2,544.45. This every-way unwise law, therefore, makes it more to one's advantage to take a cash value rather than paid-up insurance, while all rules or laws should tend to favor the man who will continue insured.

If a man is entitled to, or already has, a certain amount of paid-up non-participating insurance, we may compute its minimum equitable cash sur-

render value in a very simple way. The risk of the withdrawal of the better lives can be most logically and definitely met by assuming that those who withdraw belong to a class of lives having a rate of mortality bearing a certain definite relation to some standard table, such for example, as the Combined Experience. As most good companies have an average death rate about eighty per cent. of that by the Actuaries' table, it is reasonable to assume that the best lives—those which withdraw—have a death rate only fifty per cent. of that by the Actuaries' table, or about two-thirds of that prevailing amongst the whole company.

If we find the value of the paid-up insurance from tables computed on this hypothetical death rate, with a rate of interest as high as a company can reasonably expect to realize for some years to come, the net or theoretical value so computed is clearly the amount which a company could certainly afford to pay under ordinary circumstances. (I have such tables computed on several rates of interest, and have used them for many years past, but it does not seem necessary to give any example from them.)

To guard against the contingency that the cash value might be demanded in times of great financial stress, it should be provided that a certain percentage might be deducted from the theoretical

value, as above computed, to cover any loss that the company might experience through being compelled to convert securities into cash during such financial troubles. How great might be the loss from forced sales of securities will be acknowledged by all who had any experience of the crisis which began in 1873 and continued for many years afterwards, and also of those in 1893 and other recent years.

Many four per cent and five per cent securities, now selling above par, and which were also at par twenty-five years ago, have, in the meantime, sold for ten and even twenty per cent less than their apparent value, and may very possibly be again equally depressed. A margin of twenty per cent would not be too much to allow for safety. In 1873 Michigan and Illinois six per cent State bonds sold at eighty-five, or more than twenty per cent under their previous and later values. Probably many here can remember some of the many cases of good railroad bonds selling for twenty per cent under their value during the long depression from 1873 to 1879. Real estate mortgages, the best of securities in ordinary times, might be quite unsalable in such periods.

Though no life insurance company has yet been rendered insolvent through a run on it for cash surrender values, something exactly parallel happened in the case of a Philadelphia fire insurance

company, which had a large number of "perpetual policies" that entitled their holders to demand a return of their deposits. These deposits were invested on bond and mortgage, and in 1871 when the Chicago fire occurred the company was unable to meet the demands for these surrender values, and, though fully able to pay all its fire losses, had to go out of business.

While I would not assert that the general methods above indicated are the only safe and scientific ways of computing minimum cash and paid-up values, I am sure that any method based directly upon the standard reserves must be very complicated or else very inconsistent and unsafe in many cases.

At this point allow me to state that I am not, and never have been, opposed, but always favorable, to guaranteeing cash surrender values, provided the matter is left to the discretion of each company. Thirty years ago, in 1868, two companies adopted the system by my advice, but the guarantees were much less than under the Massachusetts law and extended only for ten years with a proviso for extension during the next ten years thereafter.

In the foregoing remarks I have endeavored to show that history teaches in general that the greatest prosperity and happiness prevail where governments do not interfere much with private and cor-

porate affairs ; that in Great Britain, where there are no non-forfeiture laws and scarcely any restrictions, the companies have treated the insured with a liberality which has only lately become the general practice here, where legislation, apparently in the interest of the insured, has really operated against them ; and, finally, I have sought to show that the questions involved are beyond the understanding of legislators, and such as should properly be left to the companies themselves, and I would close by saying that all legislatures disposed to dabble in non-forfeiture law should be warned by the sad experience of the old Bay State, which in the past has been so ready to impose onerous and even dangerous burdens on its regular companies, while it has allowed a free hand to such swindles as the "Iron Hall" and other "*co-duperative*" concerns, and that, too, after the swindles had been most clearly exposed and denounced by the Insurance Commissioner.

WM. D. WHITING :

I most heartily agree with the main conclusion of Mr. Fackler, to the effect that all so-called non-forfeiture laws should be repealed, as being arbitrary, unscientific, calculated rather to reduce

than increase the surrender values which companies are now inclined to grant voluntarily, and wholly unnecessary in our present state of competition, safeguarded by the gain and loss exhibit which compels each company to state publicly its treatment of policy-holders in this respect. But I am unable to concur with his extreme *laissez faire* views as being applicable to American insurance, or to overlook the fact that at one time our non-forfeiture laws played an important and useful part in preventing obvious fraud and liberalizing American practice. The growth of insurance in Great Britain, and the characteristics of its people, are quite dissimilar to those of the United States, thereby making the usages of the former not always a safe guide for the latter. English insurance was a slow and careful development into an unknown enterprise, among a conservative people, conducted largely by professional men. In our country it was a sudden, wild growth among a restless people intent upon their own immediate affairs and careless of collateral matters, conducted largely by business men. We grew rapidly, and soon outstripped the mother country in invention, new ideas and in point of magnitude ; but we grew unevenly, and soon developed a number of incidental and glaring abuses, among which were a disregard of minor equities, extravagance in getting business,

a high lapsing rate and wholesale forfeiture of reserves. Extravagance was the principal trouble, as it induced rebating and lapsing, and made it necessary to squeeze policy-holders in order to provide funds for high first commissions. The disappointed American policy-holder complained to his legislature and insurance department, hence a bewildering multiplication of restrictive laws and supervision ; but the companies themselves were responsible, and in many cases the better among them even asked for the laws in hopes of thus restraining the more reckless. The non-forfeiture laws of Maine and New York and most of the anti-rebate laws were passed upon the initiative of the companies. But something else happened. An entirely new system of insurance was brought forward, whose only argument was a protest against the extravagance, forfeitures and receiverships of the old line system. These fixed their limit of expenses by contract, left the reserves in the pockets of policy-holders, and sought to avoid receivers by retaining the right to assess over and above original premiums. They did a vast business until overtaken by the inevitable results of erroneous mathematical assumptions and exaggerated representations. But the abuses of the older system were responsible for their existence as well as for the multiplied legislation and supervision. Mr. Fackler informs us that

it is because the American people had departed from good old Anglo-Saxon liberty-loving ways. If so, it was because the Companies had previously declined to follow good old Anglo-Saxon precedents, and too many of them spent too much in getting business, withheld premium notices, and tried to gobble reserves. These things did not happen in Great Britain, hence there was no call for such legislation and supervision. Legislation is generally empirical. It follows disorder as an expected cure, and is but seldom intended as a prophylactic.

Legislation and supervision in this country are more onerous than under a monarchy by reason of our fundamental system of State subdivision. Therefore, it becomes necessary, in contemplating the question of Government interfering *per se*, to bear in mind that the drawbacks of our system of States is a purely local matter, which may be ameliorated in time, and which do not enter into the general discussion of such matters in Canada, Great Britain, or on the Continent. But the American Companies should have thought of all these drawbacks before they so greatly provoked them. It is perhaps the penalty of a too rank growth.

I find myself unable to concur in Mr. Fackler's prescription for a minimum surrender value. It contains worse defects than those of the present Massachusetts law. The surrender charge is a mere ques-

tion of damages. His first assumption is "that the policy-holder is under contract to pay a certain gross premium, the collection of which, it is assumed, costs the Company nothing" ; and then he goes on to sketch out a *gross* premium valuation on a 75% mortality table at 4% interest. These assumptions disregard the facts too obviously to serve as a rational or equitable basis, and we are not suprised at the *reductio ad absurdum*, that an average whole life policy would, in consequence, be entitled to nothing "until after eleven years."

It is not true that the collection of the gross premium costs the Company nothing ; from which expense the company is relieved by the discontinuance. And, on the other hand, it is true, on most policies, that the policy-holder would be entitled to return dividends (diminished by this very cost of collection) out of this gross premium, all of which Mr. Fackler conveniently disregards, as it would render any form of *gross* valuation incompatible. Again, in the average mutual company, the retiring policy-holder has an equity in the existing undivided surplus sufficiently large not only to take care of any temporary depression in the market value of assets, but, as some companies think, sufficient to provide a reasonable surrender charge and enable them to turn over the entire net statutory reserve.

to the policy-holders. Mr. Fackler overlooks this equity in surplus, and even hints at a further surrender charge for the chance of depreciated securities. The assumption of a 75% mortality for the balance of the life of retiring members is altogether incongruous, and follows the error of the late Elizur Wright in assuming a permanent, instead of a temporary, selection against the company by secession. As has been several times pointed out in the Transactions of the American Society of Actuaries, the self selection by withdrawal is but a mild counterpart of the medical selection at entry, and practically disappears in the retirant in about five years or less, leaving him thereafter an average mortality table risk. The small deduction from *net* reserve necessary to offset this temporary adverse selection, together with that needed to offset a small *per capita* increase in general expenses, I have already discussed in said Transactions.

I would add to my entire approval of Mr. Fackler's opinion that all non-forfeiture laws should now be abolished, the further recommendation that all notice laws should likewise be repealed. Now that such large surrender values are being generally given, the motive for enforcing lapses has also disappeared. Notice laws are conflicting and frequently difficult to interpret, especially when days of grace are given in the contract.

These would be much more generally and generously given if there were no conflicting notice laws to interfere.

JOHN B. LUNGER :

AT the present time this country is said to be on the verge of an era of prosperity—a prosperity greater than has ever been known in its history. Crops are abundant, the balance of trade is in our favor, manufacturing has received great impetus, the banks have more money on deposit than they know what to do with, and loans can be effected in Kansas City and Denver at rates of interest almost as low as those which obtain in New York City. All the conditions of agriculture, commerce, industry and finance are favorable to prosperity and contentment.

In about two months, however, this extremely favorable condition of affairs will be pervaded by a spirit of unrest, somewhat akin to the sensations felt before a storm. Will this unrest be due to some peculiar atmospheric condition ; will there be some subtle poison floating in the air ; will there be danger of foreign complications ? No, none of these. Congress and the various State Legislatures will shortly convene, and no man can tell to what

extent his interests will be affected by their proceedings. Am I exaggerating the prospect? I do not think so. In truth, I am of the opinion that my forecast is very mild.

The value of legislation is in direct proportion to the benefits which it confers. If laws are dictated by high-minded and sincere motives, and with due regard to the principles of legislation, they will contribute to the sum of human happiness and to the betterment of our institutions. If dictated by ignorance or selfishness, and in opposition to the spirit of honest government, they will degrade legislation, encourage discontent and become a blight upon prosperity. We cannot conceal the truth that this country and every community within its borders is suffering from too much legislation of the kind that calls for earnest protest. Someday the great safeguard of the nation, the common-sense of the people, will prevail and "something will drop," and with such a noise that its echoes will be heard for many years. What we need to insure a long era of prosperity is not bigger crops, greater output and more confidence, but less legislation.

But what have these things to do with legislation in life insurance? Just this. As the part partakes of the nature of the whole, so legislation in matters of life insurance is not one whit dissimilar to the

general tendency of law making, all that has been necessary in recent years to get through any sort of ignorant or vicious legislation on matters of life insurance, has been to label it "Fraternal." This mystic word of brotherhood has served as a cloak for rascality and deception for nearly a quarter of a century, until now the true nature of the schemes fostered in its name are being made clear, not by correcting legislation, but by the inevitable laws of nature. Take into the legislative chamber a bill labeled "Fraternal," and forthwith it is favorably considered in committee and rushed to a vote despite, may be, the protest of the person whose duty it is to supervise the interests affected by the bill, and the unfavorable opinions of those who, by reason of long experience, are competent to judge of its merits and good intent. The bill on its face has the appearance of being for "the good of the people," and a vote in its favor may help to secure a renomination. Judgment and knowledge are of small moment to the legislator who is bent on posing before his constituents.

On the other hand, present to a legislative body a bill labeled "Regular." It is promptly referred to a committee, before whom in due course of time, those who favor the bill, and those who oppose it present their respective arguments. The Commissioner is then invited to express his opinion, and

after this pleasing formality the bill is generally tabled. It comes from an old-line company and therefore must be the outcropping of iniquity. Legislatures are too prone to look upon life insurance companies as antagonistic to the welfare of the people. They do not seem to realize how dependent the public is upon life insurance for the protection of home or self. It is safe to say that not one man in ten would leave any provision whatever to his family or be prepared to buffet with old age, were it not for life insurance, and yet this business is made the subject of attack and of misconception in legislative chambers, and those who are prudent enough to avail themselves of its benefits are heavily taxed—for after all, the tax on premiums comes out of the pockets of the insured. If all the life insurance companies doing business in a certain State were compelled to withdraw from that State by unwise legislation, those who had brought about this result would probably have such a storm raised about their ears that it would bring home very forcibly the intimate connection between the welfare of the public and life insurance, even if it is not labeled “Fraternal.”

I must emphatically agree with Mr. Fackler that legislation is inimical to the interests of life insurance, even if dictated by the best of intentions and from the most sincere motives. Life insurance

is a business of a technical nature and cannot be analyzed by men who are not familiar with its principles. Moreover, as Mr. Fackler so pertinently points out, the conditions of the business are so changeable that legislation which would be of value to-day might in ten years become a menace. No!—keep legislation away from the business. It only results in bringing in timidity where positiveness should exist, and in discouraging concessions that would otherwise be made. Competition, and the wisely directed desire to increase the usefulness of the business, have done more to bring about liberality, fair play and safety than all the laws that have ever been enacted.

But, suppose that there must be legislation, what then? Simply this, that it should be limited to the conditions upon which a company may begin business, and to defining standards of safety.

The benefits to be given for premiums paid and other details of practice would better be left to the companies. If this cannot be done, and we must have legislation, then the laws enacted should be more for the purpose of indicating the sense of the legislative body, than of defining amounts. To make a direct application of this statement, any law passed with regard to surrender values should define a minimum, not a maximum benefit. The dangers of maximum legislation are illustrated in

the Massachusetts Non-forfeiture law. No one can question the sincerity of the man who drafted this bill. He was a great authority in his day and stood high in public and private esteem, but he was inclined more toward theory than practice, with the result that he committed the mistake of basing the proposed benefits of the law upon an involved formula. The outcome of his efforts was a "Chinese puzzle," as I have heard it called by a former State official, the scientific accuracy and the common sense whereof no manager or actuary, with one exception, has ever been able to discover,—and this one exception is no doubt influenced in his opinions by considerations of filial respect. The practical result of this example of maximum legislation has been to dwarf the Massachusetts companies and to serve as a constant menace to them. To what extent their usefulness would have been increased if the Massachusetts Non-forfeiture law had never been enacted, can best be judged by a comparison of their records with those of companies of equal age in other States.

The New York State Non-forfeiture law, on the other hand, is a wise example of minimum legislation. It defines that in the sense of the Legislature surrender values in life insurance should be allowed, but the amounts called for, even at the time the bill was passed, were lower in the main

than the values then being granted by the companies. It stands upon the statute books to-day, not as an index to surrender values, but as an admonition that they should be granted. Scientifically, the bill is not accurate, but better than that, it gives play to changing conditions and common sense.

The difficulties which legislators would encounter, if they attempted to define proper surrender values, may be gathered from the discussions which take place in this country and abroad regarding surrender charges and surrender values. There are no two features of life insurance which are being debated at greater length, and it would probably be difficult to bring together two men on this side of the water or abroad whose views upon either subject would harmonize. Until there is greater unanimity on these points among the experts, it would seem wise for legislators not to intermeddle, especially as the tendency of the companies to put forth policies on attractive lines has led to a competition in this respect which has produced benefits which are more than liberal, and which in themselves indicate that there is no necessity for legislation. One of the maxims in life insurance to-day is, "Give the policy-holder every dollar of equity to which he is entitled," and the sentiment is fittingly observed in the voluntary granting of surrender values.

S. H. WOLFE :

THE action on the part of the legislature of several of the States in enacting laws for the purpose of placing assessment associations upon a firmer basis, and bringing them one step nearer to that condition of affairs which must eventually cause all distinctions to disappear, lends peculiar interest and importance at this time to a discussion as to the right of the State to compel insurance companies to give a cash surrender value to policyholders withdrawing from the company.

Mr. Fackler's paper, it seems to me, while tracing out clearly the Aryan wave which swept over the continent of Europe, and the consequent rise and fall of the various races and forms of government, has omitted a statement of the legal status of the reserve of a company; for after all, the discussion simmers down to the question whether this reserve is the property of the insured or of the company, and whether in the event of his withdrawal he is entitled to receive the full amount, or a percentage of the same. To this aspect of the question I will therefore confine myself.

While it is an indisputable fact that the happiness of the citizen is best served in those countries in which paternalism is not rampant, and in which the intelligence and discrimination of the citizen is

encouraged by the absence of restrictive laws, still, to anyone who has watched the epidemic of "wild cat" corporations from which this country has suffered during the past two decades, the abolition of all supervision and legislation pertaining to insurance matters is a subject of great magnitude.

Mr. Fackler himself has referred to these "coduperative" concerns which have been allowed to exist in the various States and absorb the savings of the poorer class, for it is a regrettable fact that it is to these individuals to which the agents or organizers can most successfully appeal, and yet the blame for their existence rests not in State supervision, but in the way that the supervising officers are hampered and tied by the lack of authority granted to them by legislatures. Instead of surrounding assessment and fraternal insurance with safeguards as stringent as those to which legal reserve companies are required to conform, it is apparent that irresponsible concerns have been allowed to flourish and multiply like noxious weeds, only to go into the hands of receivers, leaving thousands of bewailing victims.

It is necessary, therefore, that the police laws, for I so term the laws regulating insurance corporations, be enforced, and should there be found a necessity for any change in them, I sincerely hope that it will be in the direction of more stringent

rather than more lenient ones. This statement brings us face to face with the specific question under discussion, viz. : the necessity for a law requiring a surrender value.

Mr. Fackler presents two propositions : First, that there is no necessity for such a law, because the competition which always exists between companies will require them to treat their policy-holders liberally ; and secondly, that the enforcement of such a law will work injuriously to the interests of the policy-holders, inasmuch as corporations will avail themselves of the privilege granted by it and will give to the policy-holders only the minimum provided therein, instead of a larger amount which they could afford, and which competition would dictate that they should give. It seems to me that there is a slight contradiction here, for the competition which exists before the passage of a law exists in the same degree after its enactment, and the truth of this proposition is evidenced by the fact that the surrender values now granted by insurance companies are not the ones which are provided by the laws of the State of New York, but are the direct results of competition between the companies. Nor is it a sound proposition that Mr. Fackler advances that the State should leave to the companies the regulation of these values, for Mr. Fackler himself has

pointed out in his paper that the officers of companies are not the best judges and frequently give more than they can afford.

While it is true that insurance companies were brought into existence for the purpose of paying death claims and distributing the individual losses over a large area, it is likewise true that the institution as administered to-day has assumed largely the functions of a banking corporation. I say this advisedly, for it is a bold proposition to make, but I can see no distinction between the operations of an insurance company accumulating reserves for the maintenance of a level premium, and the operations of a savings bank, which allows interest on annual deposits, and permits the withdrawal of annual increments.

It may not be amiss to emphasize this statement by an exhibit of the simplest and most elementary method of determining the reserve on any policy, and one which Mr. Fackler has used with such happy results in his accumulation formula.

Assuming that l represents the number living at any age _{x} , d the number dying at the same age, p the net annual premium for any form of insurance for one dollar, H the reserve at the end of the previous policy year, and $(1 + i)$ the amount of one dollar at i rate of interest for one year, it will be apparent that

$$\frac{(1+i) l_x (H+p) - d_x}{l_x + 1}$$

will represent the reserve accumulation at the end of the year for an insurance of one dollar ; in other words, the excess payment which has been given to the company for the purpose of accumulation in order that the insured will not be required to pay premiums advancing in accordance with his age.

Is this excess payment a whit less sacred than that portion of the premium which has been paid to cover the current mortality costs ? Is the insured's title to this excess payment less clear and distinct than his title to the mortuary benefits, and finally, to what extent does he impair this title by withdrawing from the company and refusing to further continue his premium payments ? Is it not true that the contract entered into between the insured and the company is of a dual nature, the failure to complete one part of which leaves the other intact ?

Mr. Justice Bradley in a decision handed down by the United States Supreme Court in the case of *New York Life Insurance Company versus Statham* (93 U. S. Rep.), held that a policy accumulating a reserve was not a contract renewable from year to year, and therefore the policy-holder, in the event of a failure to pay his premiums, still re-

tained an equity in the reserve held in the hands of the company. The exact words of his decision are :

“Indeed the company, if well managed, has laid aside and invested a reserve fund equal to this equitable value, to be appropriated to the payment of his policy when it falls due. This reserve fund has grown out of the premiums already paid. It belongs, in one sense, to the insured who has paid them, somewhat as a deposit in a savings bank is said to belong to the person who made the deposit. Indeed, some life insurance companies have a standing regulation by which they agree to pay any person insured, the equitable value of his policy whenever he wishes it. In other words it is due on demand. But whether thus demandable or not, the policy has a real value corresponding to it,—a value on which the holder often realizes money by borrowing. * * * * To forfeit this excess, which fairly belongs to the assured, and is fairly due from the company, and which the latter actually has in its coffers, and to do this for a cause beyond individual control, would be rank injustice. It would be taking away from the assured that which had already become substantially his property.”

While it is true that this is the case of a policyholder who has been prevented by act of war from completing his share of the contract, the case of a

policy-holder who voluntarily decides to discontinue these payments differs but slightly when the question of the ownership of the individual reserve is considered.

Mr. Fackler has suggested a general rule suitable for adoption as a law which is to apply to the case of withdrawing members, and for the sake of comparison I have compiled a table which exhibits the condition of the excess payment fund made by the insured year by year. These excess payments are ones for which he has received no benefit, and for which the company has made no expenditures. Besides these payments I have placed the cash values which would be given under the proposed law of Mr. Fackler computed (as were the figures in the first column), upon the basis of the Actuaries Table of Mortality, with four per cent interest.

Year of Insurance.	Excess Payments.	Proposed Values.	Percentage.
1	\$11.48	0	0
2	23.34	0	0
3	35.59	0	0
4	48.25	0	0
5	61.34	0	0
6	74.86	0	0
7	88.84	0	0
8	103.29	0	0
9	118.16	0	0
10	133.41	0	0
15	214.30	\$27.47	12+
20	301.35	179.59	59+

It seems to me that this is too severe a penalty to require of the insured, for after all, is the desire upon his part to withdraw from the company a premeditated act of discrimination, or is it rather the result of circumstances which prevents the payment of the premiums? The benefits of life insurance have been pointed out in such alluring terms by an energetic corps of agents that there exists to-day but few people who are not convinced of the absolute necessity for the protection of the family after the decease of the wage-earner.

Bearing this proposition in mind, and disregarding those whose insurances have become unnecessary owing to the absence of anyone enjoying an insurable interest, the withdrawing members of any insurance company may be divided into two classes: (a) Those whose financial condition does not permit of their continuing the policies; and (b) Those who have been convinced by some rival agent that they can get better goods for their money in some other company. It is fair to assume that the majority of those belonging to the latter class will before allowing their policies to lapse, assure themselves through the medium of a medical examination that they are in an incurable condition, and therefore likely of acceptance in the new company.

Succinctly stated, then, the withdrawing mem-

bers are either poor or dissatisfied. The question now arises as to the damage inflicted upon the persistent members, for it is this damage which must be assessed as a surrender charge.

The physical condition resulting from a scarcity of funds, and the mental condition resulting from financial worries are notorious factors in the shortening of life. The danger from suicide is enhanced, the tendency towards indulgence in intoxicants and narcotics, with the subsequent failure to obtain proper nourishment, the fact that a person in this condition is less obnoxious to many diseases, all render this class of insurants less desirable than the normal policy-holders. It is clear, then, that the company will lose nothing from this class of withdrawals.

The second class, however, presents a different aspect, and the proposition here quickly resolves itself into the question of the ability of the company to overcome the dissatisfaction by placing upon the withdrawers a punishment so heavy as to be prohibitive.

I have shown, however, that this class of withdrawing members is in good physical condition, and the question of the damage done becomes more vital. A pertinent inquiry at this moment is whether the premium charged by the company is based upon statistics which considered the nor-

mal life only, or whether the very fact of withdrawal has not been taken into consideration in the composition of the premium.

The two tables of experience upon which companies in the United States are operating are the Actuaries' or Combined Experience Table, and the American Experience Table. The former was compiled by a committee of actuaries from the experience of seventeen English life insurance offices, which exhibited a record of 62,537 assurers. This was arranged for publication and graduated under the supervision of the eminent English actuary, Mr. Jenkin Jones, of the National Mercantile Life Assurance Society. The second table (the American Experience) shows the experience of the Mutual Life Insurance Company as observed upon 68,000 lives, and graduated by Mr. Sheppard Homans.

It is fair to assume, then, I think, that all of these contributing offices passed through the experience of having members retire, and therefore, any adverse effect upon the mortality has found its corresponding reaction in the charges made.

Is a life insurance company ever exposed to the danger to which banks are subject, viz.: having a "run" made upon it? The policy-holders in an insurance company bear a different relation to the company than do the depositors to a bank. To a

certain extent it is true that the average man thinks only of his insurance when the anniversary of the due date of his premium payment is at hand, and between those dates the policy lies unread and unthought of in the safe. Numerous companies, many of them to-day among the soundest financial institutions of the land, have passed through crises which threatened to undermine them. Subject to the attacks of the insurance and the daily press, exposed to the adverse returns of insurance officials, they have nevertheless moved on without experiencing severe "runs." This condition of affairs is explainable only on the ground that the due dates do not frequently recur, in contradistinction to the deposits in a bank, which are always subject to payment.

It is an axiom of the law, I believe, that the extent of the damage must be proven before restitution can be demanded, and I am of the opinion that an attempt to assess the damages caused by withdrawing members will result in the development of the fact that the company benefits to a certain extent by each exit. This is certainly true in those companies whose members are permitted to participate in the profits of the business, for a certain portion of the surplus earned by the insured (the amount of which depends upon the nature of the contract, whether

tontine or annual distribution), remains in the hands of the company. One corporation that I have in mind has gone so far as to assume that the "mortality damage" is counter-balanced by the forfeited share of the surplus, and in consequence the insured is given the entire reserve on the policy.

Inasmuch as I have disagreed with Mr. Fackler's recommendation, it is but just that I should suggest a substitute, which to my mind would do ample justice to the insured and to the companies. The proper field of investigation lies in a decreasing scale of assessed damages proportionate to the initial expense for obtaining the business. As soliciting methods are constituted to-day a company requires from one to five years to recover from the shock caused by the injection of new business, and until a policy has entirely repaid into the surplus fund all that was extracted for its procurance, it should not be allowed a surrender value. At the end of that time a deduction should be made, not as Massachusetts has done, by a uniform surrender charge, but by one extending over a period of, say five years, corresponding to the effects which medical selection will have upon the mortality of the company. This is the suggestion which I would make, leaving its working details to those who would have in their possession

the experience of all the companies as a working basis.

In conclusion I would say that I disagree with Mr. Fackler in regard to the hopelessness of all legislation owing to the failure of Massachusetts in that direction. The memory of Elizur Wright is held dear by all who recognize that his steps marked the initial reform in life insurance supervision, and the lesson learned therefrom is not that we should sit idly by with folded arms and deplore the failure of his laws, but rather that we should bestir ourselves in an attempt to obtain better, more exact, and more scientific ones, a condition of affairs which I am sure will prove more satisfactory to the companies and to the departments.

ASSESSMENT LIFE INSURANCE.

ITS BEGINNING, DEVELOPMENT, AND FUTURE.

GEORGE DYRE ELDRIDGE :

NO claim of failure in attaining permanence will justify negligence on the part of the student of life insurance of the movement that found embodiment in the assessment system, so-called. He who assumes to speak for it to-day may essay an unpopular role—but a movement which succeeded in a brief quarter of a century in the collection from its adherents, and in the distribution to widows and orphans, of nearly one billion dollars, has a meaning capable of exerting a strong influence on the future of American Life Insurance.

Assessment life insurance had its unobtrusive beginning thirty years ago. The oldest active American life insurance company was less than a quarter of a century in business ; the insurance in

force was less than \$1,200,000,000 ; the assets of all the companies scarce exceeded \$175,000,000. American industrial life insurance was unthought of ; the man whose genius for hard work and successful organization opened the road to its success had scarce passed his majority ; the degree to which the insurance instinct would develop in the American people was unguessed. Of the forces that appealed to that instinct ; of the forces that have made the American people of all people on earth an insuring nation, not the least effective was the assessment movement.

We are often told that the movement grew big upon the wish of the masses to get " something for nothing." It certainly grew big upon the wish to secure something—and that something was the benefit which life insurance alone can give—the protection of wife, children and dependents which, when life insurance is stripped of all the extraneous growths which have encompassed it, still is and still must be its primary and central purpose. It grew in mass side by side with industrial life insurance—that retail development which is necessarily the most costly of all. A people which grasped as readily and impartially as did our people these two opposing schemes, directed, however, to one central purpose, is not a people simply crazy for value without equivalent yielded. It is

far more apt to be the verdict of the future that the managers of assessment institutions falsely attributed their marvelous growth to the mere claim of cheapness, and in the pursuit of false gods sacrificed the opportunity which was no less theirs than it was that of their competitors.

In its origin there was complete failure to recognize the fact that life insurance was the end and purpose of the assessment movement. In large part this was due to the ignorance of the general public as to the nature of real life insurance : that it is simply a method or system of distributing over an entire community the money loss due to the death of the one. The movement aimed, by what seemed the simplest and most direct method, to secure some certainty for the future to the dependents of a dead neighbor or fellow-workman, and it came into being, not as the result of any organized concert of action, but simply in response to one of those common movements, having no recognized centre, but many apparent centres, which at times affect the public. Already life insurance, as it presented itself to the average man, had become a most complex organization, seemingly calling for the payment of much unnecessary money ; seemingly, involving much unprofitable expense ; seemingly, demanding much unremunerative accumulation. There was nothing in

all this to teach him that all this machinery had as its simple aim a simple end, and that when he formed his burial club, his benefit society, or took membership in his "order," he was entering upon this great business of life insurance and addressing to an end already attainable varied methods, which would succeed or fail in the degree to which they conformed themselves to the requirements of practical business and the inviolable laws which underlie all transactions which have to do with the decrement of human life through mortality. On the other hand many men believed the new movement wrong, simply because others said so; others felt that it was wrong with an instinct that baffled analysis; and the few who knew its weakness failed to make that knowledge clear to the many to whom that movement appealed. The result was that the assault was made with weapons often weaker than the error assailed, and failure was predicted on grounds that as directly assailed existing methods as those which were sought as substitutes.

For it was not the distribution of cost after the occurrence of the event; it was not the treatment of the individual in his personal relation to an increasing weight of risk that was at fault. If it had been both or either, then all life insurance were impossible, for these are features inherent to

every system. The one great weakness was failure to provide security for the payment of cost—failure to take ordinary business precautions against the granting of credit without security.

I name this as the great weakness, for however fallacious was the idea as to cost distribution which originally prevailed, it was bound to correct itself with little damage to the body of members had there existed security that assured the collection of cost and protected the mass of members against loss by non-payment on the part of any portion. The rules of proper cost distribution won much earlier recognition than is generally admitted, but when such recognition came there had already come the pressing problem of insufficient security which overtopped by its ceaseless demands every other requirement.

One is not compelled to trust to tradition or arbitrary reminiscence to determine the accuracy of this statement. There is the published record available, as in almost no other branch of insurance. In the reports of the National Convention one may read the history of the broadening of thought, measure the growing grasp of the questions that pressed upon the managers of companies, and gauge the relative importance attached to these questions. You will find that these men early recognized that there is but one standard for

the distribution of cost; you will find that years ago they knew that proper distribution demanded the recognition of the factor of attained age, and that the great question they were struggling with was the question—how?

An easy question to answer, the actuary and the commissioner, perhaps, unite in declaring; for no inconsiderable share of the contracts were so framed as to make proper adjustment legally possible, and the way to adjust is to adjust. But there ever stood in the way that terrible lion of insecurity—insecurity, not inherent to the method of post-mortem adjustment, but born of post-mortem collection, of cost, and fostered by the laws of our several States. The future historian of the assessment movement, when the acrimony born of personal competition has ceased to distort the vision, will be forced to recognize and give weight to the influence which law has had in shaping the future of the associations and in barring the way to the corrections of the weaknesses of earlier methods. Even that degree of accumulation which would have protected the mass of the members against the evident money loss incident to the normal lapse of a certain proportion of the members assessed for losses already sustained was not permitted in many States. Law also stood ready, if the management of an association, learning wisdom from

experience, sought to adjust in accordance with the mortality tables the growing loss that came after the earliest years, to charter the new and irresponsible association with power to entice the healthy member of the old organization, with the lure of the psuedo cheapness of a new membership, to abandon his contract and leave the less physically perfect members to bear accumulated and future cost, without the recompense of even a pretended forfeiture in reparation of deterioration, since law forbade the collection in advance of the moneys from which such forfeiture could be exacted.

It is the fashion to look to Massachusetts in condemnation of evils ascribed to selfish managements and greedy officials, eager for their own personal gain, rather than for the building of permanent institutions. How many have asked the question: What aid did the law hold out to men eager to build for permanence? It did not even permit the accumulation in advance of the amount of one death claim—not even the holding of the proceeds of one assessment! But it did make it possible, if a management sought honestly to place upon the member his proportion of the cost increasing with increasing age and to collect on that basis for the insurance which the law compelled it—if sold at all—to sell on credit, for any seven men who could raise five

dollars for a charter fee and obtain credit for a little printing to secure the authorization of the Commonwealth to operate a competing institution to underbid the one already established on the fairly probable chance of a smaller death rate for the year or two or three that the older organization antedated the new ! These men had given labor and effort and force that is truest capital to their enterprise ; they had built up a mass of membership at a smaller outlay than that by which such a mass had ever before been gathered together in a business organization, and they hoped to conquer the evils, not heeding the unwelcome truth that the results of the earlier conditions imposed upon them had so grown with passing years as to render what at first was simply injurious, at last fatal.

It is not my purpose to defend ; I am simply aiming to present facts ; and the facts are that from the all too scant provision originally made for expenses, the men who had built up these institutions, hoping for an honest return for labor given, came at last to divert a larger and larger proportion to an effort for personal gain in the few years of life that the conditions fostered by, if not born of, the law seemed to render possible. The facts are that, when the first accumulation was undertaken by these institutions, no warrant in law for even

the small sum aimed at existed ; the fact is that it was looked upon as a great concession when the accumulation of one assessment to be held in anticipation of a death and then immediately paid out was permitted by law, and when it was provided that if an assessment would produce less than \$10,000, that sum could nevertheless be held. The fact is that even so intelligent a commissioner as John K. Tarbox urged the Committee on Insurance of the General Court, as late as 1885, to place the limit of one assessment upon the accumulation permitted these associations. The fact is that the associations for years fought for the mere right to accumulate security. The fact is that the State continued and continues to this day to allow the membership of established associations to be undermined by the specious offers of new and irresponsible organizations which it freely charters to do the very business under the very conditions that time has proved to be dangerous and finally fatal !

Given a strong and general movement favorable to the development of life insurance among the people, laws that well-nigh enabled every man, if not to be, at least to have, his own company ; laws that presented the gravest difficulties to the management which aimed to make of an assessment company a strong and permanent institution ; and administration of law that too frequently

operated upon the assumption that nothing of good could come out of the Nazareth of Assessment Insurance, and we have conditions eminently favorable to the graveyard frauds of Pennsylvania; the speculative endowment orders, which had no element of life insurance in their make-up; the old age monstrosities of Indiana, and the proprietary organizations of Massachusetts, which degenerated into articles of bargain and sale. Yet, when of these one has summed the total chargeable to life insurance and set against it the actual aggregate of from \$800,000,000 to \$1,000,000,000 paid within a single generation to the widows and orphans of the land, he cannot deny that at the foundation of this movement was an honest purpose to accomplish honest results, and that the financial integrity which has been shown in the management of companies will bear favorable comparison with that of any other business approaching this in magnitude of operation that has been carried on during the same period.

One of the grave faults of the movement—a fault from which many of the companies have suffered, and are still suffering most seriously—was the inadequate provision for expenses. As life insurance has developed and is now practiced by the companies operating under the ordinary law, it collects in its premium account the current mortal-

ity cost, payments on account of future mortality, the heavy investment payments involved in endowment, and the expense of doing the business, which latter, subsequent to the initial year, can legitimately be increased but slightly by the expenses attending the care of investments. The assessment company has practically collected only the first and last named of these items, and yet in so doing has incurred the vast bulk of the expense attendant upon a life insurance business, thus necessarily rendering a determination of results by ratios peculiarly unfair when comparison is made with a method of business where the premiums gross are enhanced by large elements of accumulation that the assessment companies are not permitted to collect. On a basis of comparison that shall give the companies that accumulate large investments fair credit for the expenses thereby involved and then measure the insurance expenses by the results accomplished, the most legitimate criticism of the assessment companies will be that they have not always expended sufficient money to do well the work which they have had to do.

To many minds the most pronounced tendency of the assessment movement has been in the direction of assimilating itself to so-called old-line insurance, for which is claimed every factor of sound theory and practice. I leave to its adherents responsibility

for a proposition that might be construed to imply that so-called old-line or legal-reserve life insurance is so perfect as to have before it possibility of but one, and that the great final, change; but for myself I am not prepared to believe that for life insurance there is not still possibility of growth and adaptation to new needs. If, however, all the principles possible to true life insurance are massed in the present practice of the companies operating under the legal-reserve law, then this tendency of the assessment movement should be ground for commendation and not condemnation. If honest men have made errors they can afford to put their pride in their pockets while they correct them, and do not need to give themselves much trouble on the score of the self-complacency of their fellows, who were born with all the perfections, including self-appreciation.

As far as the charge implies that there has been a constantly increasing tendency toward the unalterable principles that lie at the foundation of real life insurance, I hope it to be true—I believe it is; and I am confident that had the law been less repellant, had there been greater willingness in administration to substitute aid for criticism, that tendency would have developed more rapidly, made progress more steadily, reached consummation through less costly avenues, until to-day the

problems which give to the future of the assessment movement any uncertainty would be far on their way toward solution.

The progress that has been made has embraced :

1. The substitution of a definite benefit for one conditioned on the amount of an assessment.

With the passage of the Massachusetts law of 1885 came the end of the conditional benefit for companies that sought to do a general business. Practically, from that time on, every such company has treated its policies—no matter what the technical contract provision—as carrying fixed benefits. Of course the critics of the system have not all discovered this fact. It was hardly to be expected—it occurred only thirteen years ago.

2. The issuance of the post-mortem assessment contract has been abandoned.

This also was in part a result of the Massachusetts law of 1885—a law that had in it so much of good and has been the copy for so much subsequent legislation that it will ever remain a pity that it did not go one step further and compel the collection in advance of an adequate premium based on a standard table.

3. The principle of partial reservation has been adopted.

The value that might have attended this step has, however, been greatly diminished, by the un-

certainties involved in operating under laws not adapted to the maintenance of true reservation, laws that not infrequently have been interpreted along the line of forbidding that which they do not expressly authorize, thus making them a barrier to the development of the companies in the direction in which every honest official should desire to see them develop.

What remains to be done is :

1. To close the door to the creation of irresponsible and unnecessary associations.
2. To place at the foundation of the business adequate premiums collected in advance.
3. To substitute true reservation on an approved standard for the unscientific and imperfect methods that now prevail.

The first step to this end was taken during the legislative session of 1898. A much longer step should be taken in 1899. When taken it should be had with full regard to the fact that the assessment movement has become the great repository of the term life insurance of the country. Legislation should be so shaped as, if possible, to preserve a phase of the business of life insurance, which, largely ignored by the companies operating under the general law, has in it elements of almost immeasurable value to the great mass of insurers.

The corollary of yearly term insurance without

accumulation other than the unearned tabular premium to the date of next premium payment is re-examination medically as a prerequisite of the right of renewal. In other words, the right, inherent to the one party to the contract, of continuing after a given period, or of discontinuing at that date at option, is worth something and should be paid for. The policy-holder who may, at the end of sixty days, of six months, of one year, or of ten years of membership, continue or cease to purchase insurance at his personal option, has not met the full obligations of membership by simply paying the mortality cost of his insurance during the term the risk has been carried, and his share of the expenses. Those rates only are adequate in such cases as will make provision, in addition to these two elements, for compensation to the mass of the membership for the value of an option, which will be exercised for the benefit of the individual and not of the mass.

Medical examination, however, minimizes the value and the risk of this option, so that the general rule may safely be modified during what may be regarded as the inception period of the life insurance contract, which may be measured by the initial twelvemonth. During this period occurs the extraordinary expense involved in the obtaining of the business—an expense which, within rea-

sonable limits, will be largely regulated, however one may reason theoretically of the "should be"—by the "is"—actual competition, the market value of the services demanded, the assumed necessity for new business, the costliness of the impression made on the public mind by a decreasing business, the element of personal pride in its relation to apparent prosperity. Possibly, in relation to many, if not all, of these factors, it can be demonstrated that the representatives of a great business should be above submitting to their influence, and certainly, when the demonstration is made, we shall continue to discover for the future, as in the past, that life insurance companies are managed by men, for men, and that human nature is still a factor to be reckoned with.

Certain it is that under existing conditions, that under any conditions that are apt again practically to exist, the first year's premium—save perhaps in the case of endowments for the shortest terms—cannot, after meeting the mortality of the year and the expenses attendant upon securing the business, be made to yield anything toward the payment of the cost of insurance in future years. If the fiction is insisted in of a reserve to that end, it must remain a fiction and the money must be had from some other source and must be diverted from the performance of its proper function to the main-

tenance of a pretense. Why continue this fiction? Certainly why, if you are now to place under the reserve accumulating requirement—as place it you evidently must—a great business which has grown up with laws which have almost or quite forbidden such accumulation, burden it with this fiction with its menace to technical solvency, constituting an artificial factor with which a management, better cognizant than others can be of the actual needs of the membership as a concrete body, must account in every movement that involves the questions of new business, extension of operations, introduction of new forms of contract?

I am clearly of the opinion that in shaping the reserve requirements of the assessment company of the future, the "reserve" on business in its first year should be limited to the unearned premium to the next date when, failing the payment of a further premium, the risk will terminate. A possible exception to this rule would be where the term of premium payment is so brief that reservation upon the basis of an age one year greater and a term one year less than the age of entry and the nominal term would call for a net premium in excess of the net sum remaining after deducting from the office premium the percentage which expenses subsequent to the first year have borne to premiums on business more than one year

old during a given number of years. Any such deficiency should be charged at its annuity value as an added reserve.

Limiting the legal requirement as to reservation on policies in the initial year of insurance as above, a different treatment should prevail from the date the policy enters upon its second year of insurance—a treatment determinable from the terms of the contract and the standard of reservation, with due regard to the probability that for a time at least companies operating under such modified assessment law will continue to write the bulk of their business on the term, as distinct from the whole-life plan.

This latter probability calls for the consideration of the emergency fund as distinct from the reserve and for its adjustment on something other than a mere arbitrary basis. The “reserve” on a policy on which the premium payment is to remain unchanged beyond the term for which payment has been made consists of two parts—the unearned premium to the date when the next premium payment falls due and the payment made on account of insurance to be given after that date. In the case of policies for whole life, where uniformity is to be maintained throughout the term of premium payment, the latter factor soon becomes the predominating one and the former is comparatively

insignificant, but in the case of a term policy, the former must always maintain a comparatively commanding importance which is greatly enhanced in proportion as the duration of the two periods—the one for which full payment has been made in advance and that for which partial payment only has been made—approach equality. In the last year of the term—where the premium is paid yearly in advance—under a term contract, the former factor alone exists, and, at the end of the term, it will be wholly earned and (on assumption) consumed. If at that moment the member assumes the relation of an outsider who can continue insurance only upon the conditions imposed upon every other applicant for insurance, equities are preserved and safety assured; but the business of assessment insurance has been and will continue to be largely in the nature of renewable term insurance, with the option in the individual at each date of premium payment to continue or discontinue. As stated above, this demands something more than the mere reservation of the unearned premium to the date of next premium payment, and it is, in my opinion, here that the so-called “Stipulated Premium Laws” already passed fail, and not in the fact that they provide a means for the sale of renewable term insurance upon natural premiums, as has been urged against them.

The need of this supplemental fund—forfeitable in event of non-continuance of insurance—exists in renewable term insurance, no matter what the character of the company which conducts the business, for it is a fallacy to assume that such insurance can safely be sold upon the basis as to net premium payments that correspondingly is employed in calculating the premium for whole life insurance, with the attendant considerable accumulation. In other words, while the net premium of \$23.68 collected yearly in advance from a man now aged 40, with interest at 4 per cent., is the exact monetary equivalent of the natural premiums under the actuaries' table, the insurance-purchasing power of the two methods of payment is and always will be widely different and the member who contracts to pay on the scale of natural premiums must pay an additional sum that will establish equivalence as a forfeiture penalty. When the selling company has a vast preponderance of insurance on other plans, the apparent effect of the comparatively small amount of term insurance will be but small, while in the case of the company which sells this insurance exclusively, the effect may be, and not improbably will be, vital.

The future of assessment life insurance is, therefore, the solution of the double problem of

the conservation of the business existent in the organizations now operating under that method, and the preservation of those organizations under conditions as to future business that will compel security and compliance with fundamental laws and sound business methods. The one implies the other, for the first-named aim is to be attained only by the continued existence of the organizations, to which the requirements last named are imperative. I beg to submit that the obligation of the State, and its supervising officials, is far different under existing conditions than it might be if the question were newly presented of the chartering of organizations for the transaction of a life insurance business. The State has given being to these associations; it has authorized the business that has been done, and while it is its duty to place future business on a sound basis, it is equally an obligation that it owes to the members of these associations to aid in the work which their managements are, as a rule, honestly undertaking of preserving the business already in force.

It is not the purpose of this paper to point out the lines which legislation should take, but simply to outline the fundamental principles which should govern the future of the business; principles that any management can put into operation: principles to which, I believe, the supervising

officers of our States as a rule will give their approval and that our State law-makers will, so far as the law is now deficient, aid in putting in practice by necessary legislation. But legislation in one regard is absolutely essential to future security. I refer to the immediate withdrawal of the power to create irresponsible organizations for the carrying on of life insurance. To this end, in States where the law provides for the granting of special charters to companies purposing to operate under other methods, the same provision should be placed upon the statute-books in regard to future organizations on the assessment method. Where provision is made for organization under the general law, the requirement of Article X of the Insurance Law of New York seems to cover the ground, excepting, perhaps, that there could be permitted to the organization a given number of years in which to complete the \$100,000 deposit—say five, one-fifth to be made at organization and one-fifth yearly thereafter, provided the requirement is rigidly insisted upon that a company from another State must have the full \$100,000 on deposit.

Returning to the consideration of business already in force, a company should collect in advance from every member such a minimum sum applicable only to mortuary purposes as, together with any sum to the credit or available to be

passed to the credit of the member, will at least equal the tabular death cost by the actuaries' table of mortality to the date when a failure to pay another premium will absolutely terminate the risk. If the death rate of the preceding twelve months has been in excess of the actuaries' table, the percentage of excess should be added and collection made on the basis thus determined.

In case the premium basis is a stated payment, determined by any age other than that attained, such payment, less the provision for expenses, should be treated as a net premium, with reservation by the actuaries' table at a rate of interest not higher than 4 per cent. based on age of entry and the number of years the insurance has been in force, save that if the contract provides that the first year's insurance is single year term insurance, the date of entry is to be made one year later and the age of entry one year greater. The existence of the full reserve so determined should be regarded as a necessary condition of the maintenance of the original premium. An impairment of the reserve calls for readjustment of rate to that of attained age in accordance with the scale of original calculation, with reduction of nominal rate by the annuity value of the actual reserve for the time covered by the new net premium ; or for the collection of the deficiencies by special call.

The contract is thus treated as a contract of renewable term insurance, which is its essential character. The determination of the net premium is in accord with the terms of the contract and the reservation determined is the unearned premium if the mortality experience and interest earnings have conformed to the standard. In so far as they have been more favorable, the benefit accrues to prolong the term during which readjustment to attained age is unnecessary or to increase the reduction value of the reserve if readjustment at a specified date is a condition of the contract. The member thus receives the benefit of gain through lapse, reduced mortality, increased interest or reduced expense, through the extension of the term during which the original premium proves sufficient. This is in exact accord with the theory upon which the pre-determined premiums employed in assessment insurance are based, namely, that the savings from reduced mortality and expenses and the gain from lapses will enable whole life insurance to be given on the basis of what is, by the standard, simply a term premium.

If, as in the case with many of these contracts, there is a fixed term of years at the expiration of which the premium rate is to be advanced to that of attained age, such readjustment should be rigidly made at the date fixed, with reduction in

the nominal amount of premium by the annuity value for the new term of any accumulation properly apportionable to the insurance. This form of contract, with the accumulation of savings, forfeitable if the insurance is not continued, protects the general membership of the association to a degree to which it is not protected if the date of readjustment is determined by the actual exhaustion of the reserve. Where, however, the net premium as determined by the terms of the contract is less than that fixed by the standard for the term named, such protection is attained only in event of the savings increasing the accumulation beyond the standard reservation. The impairment of the reserve under such conditions should be the signal for immediate readjustment of rates, even though the date named in the contract for readjustment has not arrived.

In the deductions to be made from the gross premium to obtain the net, if the contract (in which is included the Constitution and By-Laws of a mutual organization) provides that in addition to a fixed sum for expenses, certain specified expenses shall be paid from the proceeds of assessments, the percentage that will thus be consumed should be determined from the average, say of the three or five preceding years, but should not be made less than that used in the immediately preceding twelve

months. Moneys once set aside as applicable to mortuary purposes, should under no conditions be employed to meet expenses. The only application of surplus in the form of so-called "dividends" under such a contract would be (1) in reduction of the premium adjusted to attained age; or (2) the cash payment of any surplus which may arise in excess of the full standard reserve on the basis of the entire possible term of duration of the contract. All other surplus should be rigidly held to extend the term before readjustment of premium; or, what is the same thing, to increase the reserve until it reaches the standard amount required for the entire term of possible duration of the contract.

If reserve is determined on the annual basis, the association will be entitled to credit against it to the amount of the deferred net premiums, it being assumed that cost of collection is included in the deductions made on expense account. In determining the resources to offset the required reserve, there should be charged against the assets the outstanding claims and accrued liabilities, and the sum of \$100,000, where the proceeds of one assessment is equal to or in excess of that sum, and in cases where one assessment will produce less than that sum the amount of one assessment. Finally, any association which holds assets equal in value to at least its outstanding

claims and accrued liabilities and the amount of one assessment may safely be given a period, say, of three or even five years to adjust itself to the above standard, provided the adjustment is not left to the end of the period named, but is at once taken in hand. An association which has assets equal to outstanding claims and accrued liabilities, but which has not in addition the amount of one assessment, should be compelled at once to make extra collections sufficient to accumulate the amount of such assessment. An association of which the assets are less than the amount of claims and accrued liabilities, should cease doing new business until it has brought its assets up to the point where the claims and accrued liabilities are covered, with a margin of at least one assessment. It is needless to add, of course, that the association in which a single assessment will not cover the amount of its maximum policy should be required to cease business. Contracts under which the term of premium payment is less than the term of possible duration (which would include "paid-up" policies) should be required to maintain a reserve not less than that called for by the actuaries' table with interest at 4 per cent.

In the matter of future business, the general outlines of the treatment of the business already in force should prevail, but it is of course easily pos-

sible to adopt in advance precautions and safeguards which are not of ready application to business written under entirely different conditions. A management having in charge the conservation of business of any magnitude—and especially where any considerable portion of such business has been written under conditions or forms of contract that do not easily adjust themselves to the demands of sound methods—should look with special jealousy upon the impulse to make of first importance the writing of a great bulk of new business. It is as easily possible in life insurance as elsewhere to pay too dearly for the whistle, and the management of any company which has upon its books a sufficient mass of business to give an ample field for the operation of the laws of average, will find in the conservation of such business and the writing of a normal and moderate amount of new business full play for its ability, which will, not improbably, expend itself to much less advantage if devoted to the effort to produce or continue phenomenal results in the matter of amount of production.

In the application to future business of the principles laid down for regulating the business already in existence, such business (excluding all question of endowments) divides itself naturally into four classes :

- a. Single year, renewable term insurance.
- b. Term insurance, with readjustment of premium at the end of a specified term.
- c. Insurance which is to be paid for by a uniform premium throughout the entire term.
- d. Insurance where the term of premium payment is less than the full possible term of the insurance.

While a place is given here for "whole life" insurance, in strictness, all insurance ought to be confined to a term limit bounded by, say, seventy years of age, either with or without the supplemental feature of endowment (including in the term the accumulation of the future cost of the benefit and annuity provisions); and this limitation is always approached in practice, since the contract that does not carry with it accumulation to a degree which practically nullifies the factor of insurance cannot profitably be carried beyond that age and will be carried only because of a mistaken notion—fostered of late years by the over-zest to misrepresent the results accomplished by assessment insurance—that there is a loss of previous premium payments if the policy is abandoned.

a. All contracts of *Yearly Renewable Term Insurance* should be written to terminate on arrival at an age not greater than seventy years, and in

addition to the full single year net premium, based on the actuaries' table of mortality at attained age, and the provision for expenses, there should be collected and held as a forfeit in event of discontinuance a sum equal to from five to ten per cent. of the single premium for the term for which the contract carries the right to purchase insurance. Such single premium measures practically the present value of all insurance which can possibly be purchased under the contract, and a percentage of deposit exacted from the inception of the contract would equitably measure the value of the individual right of discontinuance. The contract should provide for the collection each year (not simply during the initial year) of the net premium for attained age. Such net premium should be absolutely collected, less any excess of the individual deposit and interest earned thereon over the fixed percentage of the single premium at attained age; one-half, say, of the deposits on forfeited policies to be held to meet death losses in excess of tabular, which are more apt to occur under this form of policy than under those at higher rates of premium. Savings in mortality should be added to the same fund. The reserve under such a contract would be the unearned premium paid in advance, or the unearned premium for the balance of the year, less deferred net premium. One-half

the deposits on forfeited policies should be available for expenses, to aid in replacing the forfeited business. Dividends, cash, paid-up or extended insurance values are not, of course, permissible under such a contract, save that, as stated above, the released portion of the individual deposit is applicable toward the payment of the renewal premium. At the terminable age of the contract, any unused portion of the original individual deposit should be returned, and the tabular mortality paid may legitimately be adjusted by the actual.

Under such a contract premiums are paid in advance to the full tabular amount for the period for which insurance is absolutely purchased; the unearned premium is reserved to meet the unexpired term for which payment has been made; the privilege of renewal or discontinuance at election is paid for in advance and the price paid, based on an equitable and uniform rule, is held in lieu of an Emergency fund arbitrarily determined, and provision is made to counteract the forms of damage which lapsation brings to a company. The application of the safety clause is determined by any deficiency in funds to provide for outstanding death losses, the unearned premiums and the deposit at attained age called for by the contracts remaining in force. Such a contract would be protected against the dangers which have assailed true

natural premium or yearly renewable insurance as it has been practiced and would give purely protective insurance at as low a cost as is compatible with safety, and under conditions which would render failure as nearly impossible as it can be made.

b. The general principles which govern yearly renewable term insurance will govern this division also, with the substitution of the net term premium for the number of years before contract reapportionment for the net annual premium. The net premium based upon age at entry and the single year will not answer. The loading of that net premium by a uniform percentage will not accomplish equity. The net premium should be the net premium for the term named, or the term preceding contract readjustment should be that fixed by the net premium named in the contract, and that premium should be collected each year during the term. Not later than the seventieth year of age, if the privilege of continuing the contract throughout possible life is given, the contract should provide for readjustment of net premium to the amount required, when supplemented by the accumulations, to remain level throughout the remainder of life under the actuaries' table with interest at a rate not exceeding 4 per cent. If the initial net premium is adjusted to a term of years not less

than ten in number, the larger reserve which the contract will carry will diminish the necessity for a preliminary deposit, but security will be consulted by such an accumulation in excess of the reserve as will render it impossible that the contract can be at any time abandoned without forfeiture of a sum equal to from 5 to 10 per cent. of the present value of the future insurance possible thereunder. Under such a contract there is no place for dividends save in the modification of the readjusted premiums, until the accumulations are sufficient, together with the net premiums, to provide for the insurance to the end of the possible duration of the contract. If, however, the term is a long one, and especially if it is proposed by the accumulation of surplus to extend an initial long term premium to cover the enter lifetime, cash surrender or paid-up or extended insurance will become a necessity of equity. In such a case the element of forfeiture must not be lost from sight. In the part that these values have come to play in modern life insurance contracts the State may yet be called upon to insist by legislation on the protection of the persistent mass of policy-holders against too liberal concessions to retirants in place of the present legislation looking to the securing of equity to such retirants.

Under this form of contract those contracts of

assessment companies having for their end the granting of life insurance for the entire term of possible life at a premium less than that established by the legal standard with the ordinary loading will fall. That such insurance can be safely given no one who has studied the matter will venture to deny. The line of disagreement will be the degree of reduction that can be accorded, and none will probably dispute that, with the incorporation of the safety provision, this reduction can be made greater than would be prudent under an absolutely limited premium. But such a provision must not be regarded as the substitute or excuse for an inadequate initial premium. The contract in question becomes in effect a long term contract, the time named presumably to be extended to full life by the accumulation and application of surplus—something in the nature of the endowment contracts at life rates issued by many companies. There should, however, always be in such a contract a date named when the net premium is to be readjusted by the accumulation actually belonging to the policy, to the end of remaining level throughout the balance of life, and, as stated, this date ought not to be later than age seventy. Preceding this age the net premium may remain constant or may be readjusted at intervals of ten or any other number of years; but not later

than at age seventy the final readjustment should be made, with the privilege of withdrawal as suggested for the yearly renewable term contract, save that as the right of continuance is here given there should be such forfeiture attached to the discontinuance of the payment of future premiums as will protect the company against the adverse selection which might otherwise result.

The main point in this contract not to be lost sight of is that the period intervening before a contract readjustment of net premium is to be covered by a net premium determined by the State Standard, and not by a premium arbitrarily determined without reference to sufficiency.

c. Failing a contract date of readjustment of net premium—annually under the renewable term contract and at fixed intervals under those considered under “b”—the initial net premium should be sufficient to cover the entire possible term of the contract and reservation should be in accordance therewith. In other words, if the company elects to issue a contract to cover any fixed term of years or the entire possible after lifetime and does not name therein a date when an accounting shall be taken and the net premium readjusted in accordance with actual experience to the State standard, either for a succeeding term or for life, then let the conditions of such contract govern as the con-

ditions of the contracts already considered are to govern in each case. Let the premium conform from the start to the greatest possible strain involved in carrying it level to the end.

d. This contract, treated in general as a simple or single contract, is dual in character. It is a contract of term insurance for a specified number of years, supplemented by a pure endowment for the amount of the single premium required to carry the insurance from the termination of the term insurance to the end of possible life. The term portion of the dual contract should be treated in the same manner as would be a simple term contract for the same number of years. It is universally recognized that the introduction of the accumulative element necessitates the application of different rules, but when these rules are formulated they are made to apply to the contract as a unit and not to the contract in its two-fold character. An attempted recognition of this dual character is to be found in the new blank for the returns of assessment companies, where it is required that there shall be carried as a liability the difference of amount, with interest, collected on policies on which the term of premium payment is limited, and the so-called "whole-life" rate. Manifestly there is, however, a mistake here, and the amount should be the difference between the net premium

on a term insurance for the number of years to which premium payment is limited and the net premium on the limited contract. There should also be a requirement compelling an adequate net premium by the State standard. As matters are to-day the company can make any addition it chooses, and by returning that as a liability, comply with the blank, however inadequate the amount may be to its alleged purpose.

The separation should be made for the reason that the conditions which would call for the enforcement of the safety provision would, manifestly, be very different under a contract accumulative in character and one, the essential purpose of which is the granting of benefits payable only in event of death. More than this, it is the accumulative side of the contract that calls for cash dividends, extended and paid-up insurance and cash surrenders. This portion of the contract should exclusively regulate their amount and condition. The limited payment contract does not, therefore, call for exemption from the application of the safety provision, but for such separation of the dual contract as to its parts as will enable the safety provision to apply to this insurance under conditions other than those which regulate its application to the term contract written for the same period.

Under such separation it would be feasible to

provide for expense contributions to care for expenses after the term of premium payment; for protection of the company against the danger to which it must be exposed where it accords to the assured the unlimited selection of cash or paid-up values calculated upon the same basis, and even for the valuation of the accumulative portion of the contract on the basis of a lower per cent. of interest than it might appear necessary to apply to the insurance portion, a by no means improbably advantageous precaution, since with the high standard of mortality furnished by the actuaries' table it might be entirely safe to value a term policy on a basis of interest not regarded as meeting the claims of prudence where the premiums paid are wholly accumulative. Indeed, it might well happen that the insurance contracts of a company were meeting wholly the requirements of the State standard, and giving ample security without resort to the safety provision, while a large accumulative business, by a deficiency in the interest earning power of the securities in which the accumulations were invested, might cause a deficiency on a general valuation. Naturally under such a condition the call would be to increase the net premiums of the accumulative branch of the business, and not to subject the insurance portion to a call to make good the deficiency for which it is not responsible.

In the "Battle of the Standards" it has seemed to me desirable to place at the foundation the State standard and to provide through the safety provision for adjustment to the standard of actual experience. It is not that I doubt that life insurance has been, is being, and will continue to be given at cost much below the legal standard, if proper care is had to the selection of risks and economy in administration, but because it seems to me that the fixing of such a standard is the simplest method of assuring the collection of premiums ample to the term of the contract presented by the present condition of actuarial science and its expression through recognized authority in this country. The claim of the supporter of actual experience is that a certain lower premium than that of the standard established by the State will meet the cost of insurance and give security. To support this claim, without the factor of expense which the law leaves it wholly in his power to regulate, he appeals to reduced mortality and the lapse element. He practically alleges that a certain net term premium will meet the whole life cost. He affirms that the shorter term will be lengthened by the operation of the forces he appeals to, to the term of possible life. Whatever net premium he adjudges sufficient will meet the State standard for a term more or less ex-

tended, and if he names his net premium and holds it inviolable to the purpose for which it is collected, no possible harm can result from the valuation of the contract on the basis of that premium by the State standard or of providing that at least at the end of the term covered by the net premium in accord with the State standard there shall be an adjustment of theory to actual facts and of the future net premium to the accumulation actually existing, thereby exchanging the theoretical value of the savings depended upon for the reduction of cost into an actual credit, so far as events have proved the original theory correct. Under such conditions as these the safety provision becomes, not a supplement to an inadequate original premium, but an added element of safety to meet unforeseen contingencies or emergencies—contingencies or emergencies which would actually jeopardize the existence of the institution which did not have such a recourse. Under these conditions no policy would be issued for a net premium insufficient, under a standard approved by all authorities, to meet the cost for the period which the contract set forth that such premium is to cover. Under these conditions the only present liberty denied is that of writing contracts on an inadequate premium payment and continuing them beyond the point where they are meeting their

own cost, through a system of robbing other members who for the time being are paying in excess of their legitimate share of the cost. While admitting the value of the actual experience standard, it does not seem that one of its legitimate functions is the abrogation of the State standard, nor does it appear that the operation of the two are necessarily antagonistic.

The safety provision should be twofold under a contract such as I have aimed to describe. All contracts which are to extend for a special term of years, but under which there is charged a net premium less than that called for by the Actuaries' Table of Mortality, with interest at 4 per cent. for the full term, should contain the provision for readjustment of such net premium to actual facts at a date at least as early as the end of the term which the net premium actually charged covers under the State standard. Such readjustment may be fixed at an earlier date, and under some forms of contracts it would be hazardous not to do so.

In addition to this there should be the provision for meeting any actual deficiency in the reserve as determined under the contract by the State standard, by apportioning the same among the insured by said standard. Such a provision under such conditions performs the function that paid capital performs in the proprietary company, and that the

admitted excess of premium collection in the mutual company is designed to meet. It is an actual safety provision ; not a danger-creating clause. An actuary once said that under the system of net valuation, "An American company may die, but, unless it criminally evades the law, it will die solvent." The most ill-appropriate act that a life insurance company can commit is to die, and to most minds it would seem an aggravation, rather than an alleviation, that it dies solvent. The great aim should be to prevent death. The assured has bought, not simply the life insurance he has already had, but, as well, the right to purchase other insurance in the future. This latter it is that has a value to him which, too often, dollars and cents will not measure. Either the great harm of failure lies in the destruction of the insurance-giving function, or else the assessment company that closes its doors with ability to pay accumulated death claims, and so pays them, entails absolutely no loss upon its members. Either it is the destruction of the insurance-granting function that is the loss or else the loss is that of a percentage, more or less great, of the moneys that have been paid in advance for insurance yet to be had. If this latter is the measure of loss, then nothing could be more false than the claim that any loss has occurred through the failure of companies and

associations operating on the post-mortem assessment plan, and which, therefore, have collected nothing in advance.

The insurance press has indulged at times in something of hilarity over the claims of assessment advocates that the reserves of old-line companies—so-called—are a source of danger. Sometimes they have based their hilarity on the clumsily worded statements, more frequently, perhaps, on a pretended misunderstanding of their opponents. The menace that these men have seen—and they have not been alone in seeing it, as the many and earnest papers on the treatment of insolvent companies coming from the pens of some of our most learned American and English actuaries will attest—is in the vast accumulations held to offset the reserve liabilities—accumulations for which each year is proving it more difficult to find proper investments—investments the integrity of which the assured in these companies must insure, at the peril of their future insurance-granting ability. Assume that on the 31st day of December, 1893, every bond, stock, and piece of real estate owned or loaned on by a life insurance company of this country had been valued at the cash price it would command in the market, and upon such valuation the solvency or insolvency of these companies had been determined. Is any man here to-day prepared to measure

the disaster that such a course would have brought to this land? To such a course was there lacking the warrant of law; or was it that those who had in charge the execution of that law were wiser than the law itself and executed it in its spirit and not its letter alone?

You will yet be compelled to look with leniency on the doubt which will assail the ordinary mind as to the exact practical infallibility of a standard which within the brief term of forty years has called for the recasting of one of the most important factors which enter into the determination of results upon which depends the meeting of contracts, some of which may extend over a period of twice that number of years—a standard concerning which its most earnest upholders are so divided on this one vital point that, if the more conservative are right, then to follow the less conservative is to move steadily in the direction of failure. Had there not existed outside the law the “Safety Clause” of an accumulating surplus, had not the now discarded interest rate of four and one-half per cent. been supplemented by a standard of mortality so little exact as always to be excessive, how could your science have stood the test of the already impeached four per cent. standard—to say nothing of three and one-half and three, which, as “coming events,” already “cast their shadows before”?

The principles which I have aimed to set forth in this paper may be held by many to be the principles of life insurance as distinct from those of assessment life insurance. The man whose energy has made possible the distinctive features of this convention is on record that "There is but one system of life insurance." Certainly, it does not require at this late day a confession of faith on my part in this tenet of his creed. So far as it has fallen to my lot to teach, I have sought to expound the lesson that, at the foundation of all true life insurance, rest the law of mortality and the multiplication table. I have believed, I do believe, that methods different than those practiced by many of our even great companies will carry better into practice these laws, will better elucidate that one system; but I have never consciously taught that the violation of law will produce system; that the ignoring of the laws of life leads away from the portals of death. I regard with wonder, no whit diminished as my years of study grow in number, the achievements of a half century in American life insurance. A third of a century ago, the man who would have predicted such results from the then modest beginnings, would have been regarded as visionary and an enthusiast. So, though the assessment method should disappear with the day that now is, the record of its achievements, the aid

and comfort that it has brought to tens of thousands of homes in the land, the moderate expense at which its work has been done, the wonderful educational influence which it has had, would read like a fairy tale. Shortsighted indeed must be the man who can set against this record the tale of the disappointment of unfounded hopes, the portion now of men who have been deceived because they have been ready to be deceived, and declare the balance to be on the side of loss! Such a man reads not in the book of facts, but from the scroll of prejudice so deep ingrained in his nature that facts have no meaning for him. The record of assessment life insurance is a part of the history of American life insurance, and no matter how many may be its dark pages, the bright ones predominate, and the belief which the assessment movement attests on the part of the American people in the life insurance principle should kindle hope in the heart of everyone who believes that life insurance has a work to perform in the world that no other system ever devised or that can be devised, can perform. I join with the Insurance Commissioner of Wisconsin in the declaration, "There is but one system of life insurance"; and to that declaration I would add, that system is so broad, it so completely embraces the needs of all classes, its possible methods of development are so varied that

the wise man, the intelligent legislator, the honest supervisor will make it his study to shape every method to conform with fundamental laws, rather than to confine to pre-ordained channels a system of which only a reckless or an ignorant man will declare that a half century has been sufficient to exhaust its possible developments.

LEGISLATIVE, ACTUARIAL AND OFFICIAL TREATMENT.

L. G. FOUSE :

(1) In the domain of life insurance, the word "assessment" is variously interpreted, and is oftentimes employed to describe a practice rather than a principle. It is, therefore, necessary at the outset, in the treatment of this subject, to define clearly and comprehensively what an assessment is, and its methodology as applied to life insurance. Those averse to it on account of early practices and failures, contend that assessment in life insurance means collecting after death, or selling insurance on credit. This definition being erroneous, not in accord with present practice, in conflict with the laws of many States, and the

method contemplated thereunder being admittedly unsafe and eventually resulting in failure, is at once dismissed as not being deserving of any serious consideration.

James Chisholm, Fellow of the Institute of Actuaries, defines the assessment of life risks to be "the fixing the price of assurance for each individual life."—*Journal of Institute*, Vol. XXV, p. 408.

The definition given by Blackstone, Burrell, and the highest courts of some of our States, to the effect that an assessment is the naming by an authority of an amount to be paid in exchange for benefits, in contradistinction to an amount fixed or regulated by law, is the best definition of the word "assessment" in its application to life insurance, and is adopted by me in the consideration of this subject.

LEGISLATION.

(2) Any authority, corporate, legislative, or official, which is charged with the naming of the rate to be paid for benefits of life indemnity, should be required to show very clearly on what assumption or experience the rates adopted are based, and should not be permitted to name or adopt them at haphazard. While there is great danger in the circumscription by governmental au-

thority, because the limitations are fixed and not adapted to meet changed conditions, as I shall endeavor to show later, there is likewise danger in leaving the door wide open for adventurers and schemers to take advantage of the prestige and reputation of an honorable business for selfish ends.

(3) Both extremes can be avoided, and a middle course pursued, by proper legislative action. If the promoters of a company were required at the outset to give substantial evidence of good faith by depositing with the State a reasonable sum, not prohibitory, of say \$25,000, to be retained by the State as a guarantee fund until the assets of the corporation should amount to at least \$200,000, adventurers and schemers would find assessment life insurance an uninviting field, and yet encouragement would be given to honest enterprise in the formation of new companies.

(4) No charter should be granted by any State until the plans on which the corporation intends to operate are endorsed by a competent actuary, and approved in writing by the insurance commissioner. It should be provided, that after such approval there should be no reduction in premiums, except by way of dividends or earnings, unless expressly authorized by the commissioner after the approval of such reduction by a competent actuary.

A life insurance company which establishes itself

on correct principles (an exceedingly difficult thing to do, because of the great competition), may be relied upon to perpetuate its existence by the force of its own strength and management, without governmental interference.

(5) It is not my intention to discuss at any great length the function of government in its dealings with life insurance corporations, but, for the better understanding of the suggestions herein made, I want to say, that a valuation made by governmental authority from data furnished by the companies, of which the valuers have no actual knowledge, is, in my opinion, a fraud upon the public; it lulls the public into the belief that the State exercises some control over the management, or is in some way responsible for the carrying out of contracts, which, of course, is not the case. There should be no shifting of responsibility from the officers and directors of a company to the officials of the State, who, under the law, are in no way responsible for lack of knowledge, error of judgment, incompetency, and the like, nor does the State assume any responsibility whatever therefor. It is highly important then that the legislative treatment should be such as to make it clear to the insured and the insurer that the guardianship of the State does not in a material degree extend beyond the period of organization. Thereafter, the mem-

bers of the organization or stockholders must govern themselves according to the by-laws adopted, and must assume all the responsibility of management and of perpetuating the existence of the corporation.

(6) The legislative feature which has, in the main, distinguished assessment from the other forms of life insurance, is, that companies qualifying under the assessment law have not been required in any State until recently to have values made by governmental authority. An effort has been made recently to erect some standard of valuation for assessment life insurance on the line of the present standard of legal solvency adopted by the States. There are those who claim that what is generally known as the legal reserve standard should by law be made to apply to assessment life companies. There is nothing in this movement in the interest of the insuring public to commend it ; it would not only work a hardship in many cases, but in others would needlessly wreck the companies. Why should such standard be extended to a method of insurance to which it does not apply and never has applied, when respected authorities (being representatives of companies to which it has always applied since its adoption) who have had every opportunity of studying and acquainting themselves with its workings, strongly urge and advise that it be at least modified if not discontinued ? Permit

me to review as briefly as possible the expressed opinion of well-known authorities with reference to the legal standard of safety adopted by the States.

(7) The subject was exhaustively considered and discussed in the National Insurance Commissioners' Convention, held in 1871. The Hon. Elizur Wright, author of the net valuation system, who admitted that it owes its adoption by the State more to good luck than to wisdom, said that it was not the intention of those who framed the law to make it a test of solvency, although it was so considered by the public at large, and by a great many insurance men, and that under it new companies could not be expected to get into successful operation. Whatever the intention of those who framed the law may have been, the fact remains, that in a majority of the States without the allowance of a margin of any kind it has been adopted and recognized as a legal standard of safety. For example: in Pennsylvania, the law provides that as soon as a company has not on hand the net value of all its policies in force, on the basis of the actuaries' table and interest at 4 per cent., after all other debts of the company and claims against it have been provided for, the commissioner shall (1) publish that the "affairs of the company are below the standard of legal safety;" (2) stop new business; (3) "immediately institute proceedings."

Mr. Sheppard Homans, in discussing the system of net valuation, pointed out cases in which it would be purely fictitious and arbitrary, and said :

It appears to me that the function of the State might very well be limited to the exaction of evidence in the case of any company, that the financial conditions of the contracts have been faithfully performed.

Mr. Fackler, and others who participated in the discussion, agreed that net valuation is not a test of solvency, and that in many cases it is entirely fallacious.

The Hon. Wm. Barnes said :

"A Procrustean standard, I might call it, because it is so, on a net valuation system * * * a company under our statute test can be legally insolvent, and actually able, in a business point of view, to pay all its obligations at maturity, * * * so when you come to turn over a life company into the hands of a receiver, that is a matter on which there ought to be a great deal of hesitation."—*National Insurance Commissioners' Convention*, 1871, p. 149-152.

The following declaration appears in said proceedings, page 170 :

"The public seeking insurance should have the privilege of obtaining it at its actual value, without the necessity, except at their pleasure, of paying

premiums confessedly greater than such value, and for pecuniary profit becoming co-partners in a business which they can with difficulty undertake to direct."

I commend this declaration to this convention and the public generally, which ought not to be compelled by law to make a deposit for insurance in excess of its present and future cost as shown by experience.

Mr. Walter S. Nichols, in his admirable paper presented to the Second International Congress of Actuaries, held in London, 1898, logically points out the limitations, inconsistencies, and shortcomings of the net valuation system, which he declares is neither a test of solvency, nor does it furnish the proper basis for the retention or division of surplus.

Members of the Actuarial Society of America, as stated by Mr. Fackler, generally admit "that the unwise and hasty legislation of several States concerning impairment constitutes one of the greatest latent dangers to the cause of life insurance." He then very properly directs attention to the fact that "fine weather is the time to make staunch arrangements against storm," and that "the legislation which needlessly wrecked so many companies during the last score of years, was, in a large degree, the product of ignorance, haste, and passion, and we should now endeavor to correct the

mistakes of the past lest they bear a fresh crop of evil in the future."

Mr. McClintock is on record as saying, "Away with the system so inconsistent, so dangerous, so utterly stupid."

Messrs. Woolhouse and Neison, of London, and Prof. Pierce, of Harvard College (see Mass. Ins. Report, 1860), in commenting on a valuation made by the examiners, said :

"It is stated that their computations are made on the 'Combined Experience or Actuaries' Rate of Mortality.' To inexperienced persons and to the public in general this mode of proceeding would appear to be sanctioned by great authority ; but what are the real facts ? There is really no such table of mortality as that described, it is a mere hypothetical and fictitious table, and is not based, as all reliable tables are, upon observations on lives, but has been deduced from records as to policies only, in which the number of lives at risk was entirely unknown to anyone engaged in its construction."

To the well known authorities who have condemned the standard may be added Mr. Richard A. McCurdy, Mr. Charlton T. Lewis, Mr. John A. McCall, and others.

(8) The potentiality of the governmental system of valuation was never proved on the basis of scientific data, but its weaknesses have always been per-

plexing to its most earnest advocates. Cumulative experience has magnified its deficiencies, and to-day we find arrayed against it the majority of actuaries and expert life underwriters. Ever-changing economic conditions, which in their turn develop and vitiate the factors which regulate life insurance values, must be recognized in any equitable and scientific method of valuation. A review of our currency system will, perhaps, illustrate as forcibly as anything that while a unit of value may be fixed, it cannot be maintained unless in harmony with the law of supply and demand. The same law of flexibility must be made a part of our life insurance system if justice be done to the insurer and insured. We need only go back a few months to find that some of our life companies lowered their computative rate of interest for proper increment on investments and reserves, that a heavy war tax has been imposed for which premium rates have not provided, and that our mortality rate is subject to increase through the uncertain death-rate of battle-field and pestilential epidemics of camp life. Is any scientific mensuration of policy values trustworthy and equitable as a test of solvency which is too inflexible to recognize future contingencies, prospective resources, and the possibilities resulting from variable liabilities of life companies which are, for the most part, postponed far into the

future? The hypothetical basis of the legal factors which underlie the net valuation system render such recognition absolutely impossible. It cannot take into account either the present or future economic and financial conditions, but must remain on the hard and fast lines laid down in the statute.

(9) It is the pride of the Anglo-Americans, as a people, that they have demonstrated themselves capable of self-government. The spirit of self-government should be fostered and encouraged in all the affairs of life, and legislation of a paternal character should be avoided as much as possible.

The standard of legal safety erected by the several States applicable to what are known as legal reserve companies, is not by any means uniform. A condition which constitutes solvency in one State, may allow a liberal margin in another.

(10) On account of the similarity between the assessment method advocated by myself, and what is known as the British method, I shall cite the expressed opinions with reference to governmental valuation, or State standard of solvency, of some of the leading actuaries and underwriters in the mother country of life insurance.

Mr. Richard Teece, before the Institute of New South Wales, reported in the *Journal of the Institute of Actuaries*, Vol. XXV, said:

“We who are accustomed to the almost perfect

liberality of the life policy, look with astonishment on the conditions with which the contracts of American companies are burdened."

He makes a comparison between American and British life company failures as to the comparative numbers and circumstances, and says :

"British companies have collapsed as the result of many years of shameful mismanagement, but the American companies receive from the Superintendent certificates of solvency year by year up to the very date of their failure, and we know well enough that an insolvent life company is not the mushroom growth of a single night, but the development of many years of retrogression. The result of American legislation has been to lull the public to sleep, to lead it to trust implicitly in a system which only pretended to give security, and to take away from the people the incentive to observe, to examine, to scrutinize for themselves. Theoretically, this legislation is based on sound principles—practically, it has proved to be rotten."

He does not claim perfection in British law or methods, but shows that the results of the British, as compared with those of the American method, have been most satisfactory, and especially since the Life Insurance Company's Act of 1870. In speaking of the difference between said Act and the American laws, he says :

“The leading principle of the English Act is in direct opposition to that to which I have alluded as the chief characteristics of American legislation. The latter, as I have shown, aimed at placing information in the hands of a State official, to whom the public were taught to look for protection. The English Act, on the contrary, aims at compelling the companies to make public this information, and then leaves the people to decide for themselves as to the solvency or otherwise, of the corporations. America, in effect, declared that the people could not be trusted to discriminate for themselves. England, on the contrary, said, give the people the information necessary to enable them to judge, and leave everything else to the force of public opinion, moulded by the criticisms of a free and unfettered press.”

The Act contains provisions for dealing with companies which may become insolvent; but unlike the American acts it does not say what constitutes insolvency.

Under the American act, as I have said, when a company is found unequal to the standard of solvency laid down, it is put straightway into the hands of a receiver, under whose care it passes during some years through an ordeal of spoliation, and finally yields either nothing at all, or, at the best, very homeopathic dividends to the policy-

holders. Under the English act, it is in the power of the court, instead of ordering the insolvent corporations to be wound up, to reduce the amounts of the policies, and to make provision for carrying the company on in such a way that there shall be no unnecessary waste of its resources. I look upon this provision as a most valuable one.

Mr. George King, author of the text-books of the British Institute of Actuaries (*Journal of the Institute*, Vol. XXIX) presented to the British Institute, November 30, 1891, a most valuable paper on legislation affecting life insurance companies, in which he contrasted the British acts of 1870-1872, and their amendments, with American legislation. A few extracts will suffice to get the drift of his views. In speaking of the British act, he said :

“In fact, FREEDOM and PUBLICITY have been the foundations on which the insurance superstructure in this country has been built.”

Mr. King asks this question :

“Do the public derive most benefit from leaving the companies unfettered? Or, for the national welfare, should the State exercise a paternal authority over their proceedings?”

To enable him to answer the question intelligently, he addressed letters of inquiry to representative American underwriters, such as Col.

Jacob L. Greene, Mr. Richard A. McCurdy, Mr. John A. McCall, and others. Col. Greene seems to have been the only direct champion of the legal standard of safety, and to my mind presents a most unfortunate argument in its favor. He says :

“ People have put faith in supervision, and CEASED TO WATCH FOR THEMSELVES, and that faith has, in great part, contributed to the rapid development of life assurance among us, and to the peculiar character of that development.”

Whenever people cease to watch for themselves, or possess a blind faith in anything, there is always great danger of disappointment ; but the statement made by Col. Greene is undoubtedly true ; it is the effect that paternal legislation and supervision to a great extent has had on the American people.

Mr. King, like Mr. Teece, compared the mortality of British and American life offices, and found it to be much lower in the former than in the latter.

The following extracts from Mr. King's paper are to the point :

“ For an insolvent company to fail is a disaster ; but to force a really solvent though weak one into bankruptcy produces, perhaps, a greater disaster still.

“ In fact, when a government standard of solvency is imposed, on the one hand the sense of re-

sponsibility is lost by the officers, and, on the other, public opinion adopts that standard, and asks for nothing better.

“All the circumstances of the office must be carefully considered in determining upon the basis to be adopted (this has reference to valuation), and for the government to insist upon one uniform method, entirely irrespective of the nature of the insurance contracts, expressed or implied, to be valued, would be a proceeding in the last degree mischievous * * * the official standard substitutes dull uniformity for healthy diversity. We have seen that it does not tend to secure stability, and now we may say, that it does not possess any other advantages * * * the statutory test valuation would come to be in reality, though not in name, a government standard, with the mischievous results already discussed. * * * This great legislative activity is due entirely to the idea that has gained complete hold of the American mind, that insurance companies require supervision, almost as though their officers were ticket-of-leave men.

“Persons who had insured on the strength of a government officer’s certificate in an office that afterwards became insolvent, would have grave cause to grumble, and in justice they would have a claim for compensation from the State.

Government supervision, therefore, logically implies government guarantee."

Mr. King, after a lengthy and exhaustive review of both the American and British systems, supported by citation of facts and opinions of others, says :

"I give, after a long and careful consideration of the subject, my vote emphatically in favor of the British system."

Mr. King's latest expression on the subject was before the International Congress of Actuaries, held in London in May, 1898, when he said :

"It should go forth that the opinion of the congress was, that while a net premium valuation was desirable, it should not be insisted on as a test of solvency. To insist upon such a test, might work a vast amount of mischief and inflict cruelty upon the unfortunate policy-holders. To compel the liquidation of a company which was really solvent, and able to pay its way, simply because it did not come up to the test of theoretical perfection, was very undesirable."

Dr. T. B. Sprague, in discussing the proper method of estimating the liability of a life company, after citing three typical cases, under which the net premium method of valuation is wholly inapplicable, says :

"The really scientific actuary must be prepared

to deal with each case according to its own merits, and not insist, like a quack doctor, upon applying the same specific in all cases indiscriminately.”—*Journal Institute of Actuaries*, Vol. XV., p. 419.

(11) The assessment law of our several States could be undoubtedly much improved and shortened. I do not now, and never have, favored governmental valuation—I consider it a farce in a pre-eminent degree—but do favor company valuations as a guide to the management, and incorporating in the department blanks for annual statements policy schedules, calling for sufficient information to enable any actuary, as well as the departments, to check the valuations made by the officers of the several companies. If such schedules were required of all companies it would result in discussions and comparisons, which would enlighten the insuring public, and, in the end, would be for the betterment of the business.

(12) Any one who examines carefully the assessment laws of the several States will find that in many respects they are framed upon and conform to the principles of the British law.

In all the principal States every company is required, as a condition precedent to obtaining a license, to show that it has for the preceding twelve months paid its policies in full, and that it

has the ability to do so in the future, and a further requirement of the law is, that it must carry out its contracts with members in good faith. If a company cannot satisfy the commissioner of insurance that it has the ability to pay its policies in full, and that it is carrying out its contracts with members in good faith, which means that either in its rates or accumulation it must make provision for the future as well as the present, he is empowered to take the company into court, and compel it to show cause why its officers should not be removed, and the company's method reconstructed on a proper basis. This most excellent provision of the law has been ignored ; I do not know of a single instance where advantage has been taken of it. On the other hand, many commissioners in their reports are calling for more legislation, more paternalism, more statutory declaration of what shall and shall not be, so that the companies may have less exercise of freedom and liberty, and the commissioners less opportunity for the exercise of official skill and judgment. If solvency be determined by the hard and fast lines of legislative enactment, instead of a company's ability to carry out its contracts with members in good faith, the indemnity or protection of the latter may be wantonly destroyed.

(13) *I contend that just as long as a company*

once fully established is in a position, on the basis of its own experience, to discharge its present and future obligations, it is a solvent institution, no matter what may be the provision of the law. It therefore, resolves itself merely into a question of compiling the experience, constructing the proper tables, and applying them to the insurance liability. If there be any hardship about it, or anything complicated, I must confess my inability to see it. The whole proposition rests simply on justice.

(14) In the absence of governmental responsibility, supervision should be restricted to the organization of new companies, included the adoption and maintenance of proper rates, the granting of license, the execution of laws, the compilation and publication of reports, and to examinations made by and at the expense of the State, which should have in its employ an actuary or examiner of known ability, whose appointment should not be subject to political change or influence, but made wholly on merit after competitive examination. It should by law be made a misdemeanor, punishable both by fine and imprisonment, for such actuary or examiner, after accepting the position, to be directly or indirectly connected with any life insurance company as consulting actuary, or in any other capacity; he should be kept free and independent of all company influences.

The time of making such examinations should be left to the discretion of the commissioner, but in the event of unfavorable criticism or charges, the corporation should be given the right to demand an examination.

ACTUARIAL.

(15) Whenever, in the discretion of corporate authority, a rate of premium is named or stipulated in excess of the natural cost, as determined by the mortality tables, a mathematical reserve must be of necessity contemplated for some purpose, and, therefore, actuarial treatment becomes an important factor.

The assessment principle is, in the concrete, opposed to maintaining an individual policy liability, unless the amount so set apart has been collected for a specific purpose and its use is postponed far into the future and does not form an essential part of the current insurance fund. Insurance cannot be carried on without aggregate and average.

(16) An anomaly, to which I have never been able to reconcile myself, is to employ aggregate and average in the computation of premiums, and then immediately nullify them by establishing an individual policy liability, which both by law and practice has become little less than a bank deposit. When a policy is credited with a reserve, the same

becomes a liability of the company ; and the individual ownership of the reserve, which diminishes the insurance, is recognized almost as much as it would be if the deposit had been made in an independent or separate financial institution. The insured is usually given options, which enable him either to withdraw the cash or convert the same into paid-up insurance, as it may best suit his convenience or purpose ; hence this is individualizing, and is opposed to the basis of aggregate and average upon which insurance is founded. I hold, therefore, as a distinctive feature of assessment insurance, that unless the money be collected for a special purpose, the mathematical reserve should be held as a common trust fund, in which the interest of the existing members is undivided. A retiring member, if his contract so provides, may withdraw his equitable share of the fund after deducting a surrender charge equal to from 10 to 15 per cent. of the present worth of the future deficiency of the premium. While the true qx compiled from insured lives is supposed to cover the selection exercised by the insured, the surrender charges usually made are both inadequate and inequitable, as evidenced by the fact that the average death loss is from one hundred to five hundred dollars in excess of the average amount of existing policies.



(17) The amount of the mathematical reserve required can be determined alone by the terms of the policy contract. If the premium rates are based on actual insurance experience, instead of the hypothetical mortality tables, then the company, of necessity, maintains a mathematical reserve, which at all times must represent the present worth of the future deficiency of the assessed or stipulated premiums. The valuation to be made from time to time to determine the sufficiency of the reserve and of the assessed premium can be made by the group method, and the result will be approximately correct. For this purpose valuation tables, with interest assumed on a conservative basis, should be constructed on well authenticated insurance experience, and these should be used by the several insurance departments as a guide and for the purpose of comparison. Every company, however, should construct valuation tables from its own experience at least once every five years, and its mathematical reserve at no time should be permitted to fall below the requirement of its own experience. When it does, the deficit must either be cured by special assessment or by correspondingly scaling the insurance.

(18) It will doubtless be contended that the present "standard of legal safety" adopted by the several States answers every purpose, and there is

no need of recognizing any other standard. To this I reply that assessment insurance in its varied forms owes its existence in part to a pronounced opposition by a large number of the intelligent citizens of the country to the inflexible provisions of the standard adopted by the State. This opposition culminated in the legislative enactments by which companies under the numerous assessment methods were exempted from the State standard. Probably three million citizens of the United States hold policies or certificates of insurance to which the State standard does not apply. It is not necessary to further discuss why there should be opposition to the standard adopted by the States. It is only necessary to state the self-evident facts, that the inflexible State standard has been, and is liable in the future to be, in conflict with the actual, variable conditions, and that it increases the accumulation element over a third more than insurance experience has demonstrated to be necessary. These are not mere statements, but facts susceptible of proof. I claim, therefore, that under proper treatment life insurance can be furnished with a greater degree of safety than under the State standard, and at a cost materially below the standard premium charge. It is true, that under the State standard, the excessive premiums may be returned in dividends, but it is likewise true, that the inflex-

ibility, and gross or excessive payments, still continue. In other words, the original outlay and the reserve maintained are much greater in the aggregate than experience indicates to be necessary.

(19) A pertinent inquiry which naturally follows, is, what then is necessary, and how shall the knowledge of it be acquired? Just here is where actuarial treatment becomes of the greatest importance. There are various processes of treating original data; but that process which does the least violence to the natural and actual results is undoubtedly the best.

In the construction of ordinary mortality tables, the natural conditions are eliminated, the exposures are taken at the attained age, and for the purpose of a smooth graduation, are artificially treated, so that they do not represent, but merely approximate, the natural law and conditions. It is true, that the common difference may be almost nil, and yet violence be done to the natural law. If the data be grouped according to age at entry, and years of exposure, you get nearer to the natural conditions, and have less occasion for lapsing, and if the discontinued under non-forfeitable policies, instead of deaths, be employed in the discounting, the result will represent the true cost and actual experience.

(20) For the purpose of illustrating the differ-

ence between the actual and hypothetical, I caused two methods of valuation to be applied to the policy data of The Fidelity Mutual Life Association.

The one assumed that the association collected net premiums and maintained a reserve according to the actuaries' or combined experience table of mortality, and interest at 4 per cent. This method called for a reserve of \$1,840,292.

The other method assumed nothing, except interest was taken at 4 per cent., which, on an average, is about 1 per cent. less than the actual earnings; but the valuation was made on the basis of its net premiums, and its own experience extended after the eighteenth year by the thirty American office experience, according to age of entry and policy years. This method called for a reserve of \$1,072,181.28. Negative values were ignored. The difference in the two valuations amounts to \$768,110.72; in other words, the accumulation required under the actual conditions is about 41 per cent. less than is required under the hypothetical basis under like contracts or policy conditions. This difference does not necessarily imply any difference in the actual cost of insurance. Under the first or hypothetical method, it is possible for a company to return by way of dividends the excessive accumulation of \$768,110.72; but my contention

is, that when a company accumulates what all experience shows to be necessary, and incorporates a safety clause in its policies, giving it the right to increase the assets, or diminish the insurance liability, that there is no actual necessity of collecting premiums on such a hypothetical basis. This matter was admirably put by the committee, as reported in the proceedings of the commissioners' convention in 1871. It was declared that the public should have the privilege of obtaining insurance at its actual value, that the paying of premiums confessedly greater than such value *should be at their pleasure*, and that they should not be compelled to become "copartners in a business which they can with difficulty undertake to direct."

(21) Under the experience method of valuation, with its correlative premiums, the probable savings and gains are anticipated, and the premiums are correspondingly reduced. It, however, must be clearly and distinctly understood that this method of valuation and constructing premiums contemplates a safety clause or provision in the policy similar to the British statute, which, in the event of impairment of the reserve, authorizes a proportionate scaling of the insurance liability. There is absolutely no escape from paying the actual cost of insurance, whether it be the hypothetical or

experience method ; it is merely a question of business policy and convenience to the insured, as to whether he can pay \$30 as readily as \$20 to protect his dependents. If he can, he will probably accept the hypothetical method, and the chance of reduction by way of dividends, so as to avoid the possibility either of an increase in cost or scaling of indemnity. On the other hand, if the reduction in premium be an object to him, he very properly may conclude that the variation in the cost of insurance has been so slight that the probability of either an increase in cost or diminution in indemnity is so remote that he will prefer to retain the one-third of the premium for the current support of his family and to help him along in his business interests.

(22) In the employment of the experience method, recourse must be had at the outset to the most extensive data available, but after a company has say \$75,000,000, or better \$100,000,000. insurance in force, and has been in business about twenty years, it may with safety have recourse to its own experience, by which it should thereafter be guided in the determination of values.

Premiums and values based on the actual experience of the thirty American offices, grouped according to age at entry, if no surrender values are contemplated, would afford a conservative starting

point for a new company. When the premiums are discounted by the discontinued as well as deaths, then no surrender values can be paid. The insured obtains, by way of reduction in premium, the full equivalent of paid-up values. If such experience be employed at the outset or beginning of a company, then values of its own experience, as soon as it affords a good average, should be substituted. No company which undertakes to maintain a level rate can carry out its contracts with members in good faith unless the funds safely invested are at all times equal to the present worth of the future deficiencies according to its own experience, whether such experience be above or below the standard tables. I contend that it is already a requirement of the assessment laws of nearly every State that such a fund should be maintained, and that it is the duty of every association to determine and maintain values and premium rates according to its own experience.

(23) Actuarial considerations do not end with the net insurance premium. The expense factor is one which is too often neglected. Mr. Walter S. Nichols, in his paper presented to the Second International Congress of Actuaries, very aptly and properly says:

“The paramount legal obligation of a company is to perpetuate its existence until its purposes have been accomplished. It justifies the retention of

surplus when needed, even though equities may be disturbed. It exacts of a young company such expenditures of its resources for new business within the limits of safety as may be needed to secure a sound average, and requires all companies within those same limits to maintain whatever membership is required to carry out their purposes."

The mad race for business in which every company, if it would live, must take some part, the various devices for making corporations pay tribute or penalty to the State, the press, individuals, lawyers and blackmailers, for continuing existence, are becoming a menace, and result in materially increasing the cost of management. While much has been said by those who know better about the excessive cost of management in assessment companies, the fact remains that they as a class have not made proper provision to defray the expense of management. The urgency and need of reform in this particular led the companies to the other extreme; they undertook for one or two dollars to do what ordinarily under careful management requires six dollars. Comparisons have been made in support of apparent extravagances, of ratio of expense to losses paid, which is worse than misleading, and is always unjust when applied to new organizations, or organizations that have not reached a normal death rate.

Mr. Wm. D. Whiting presented to the Actuarial Society of America, at its April meeting, an able paper on "PROVISION FOR AND DISTRIBUTION OF EXPENSE." He fully recognized the difficulty of presenting any fixed formula that will apply to the variable conditions. The following is the rule which he gives as the probable cost of management :

"1st. NEW BUSINESS. 80 per cent. of the first year's premiums, to cover all expenses incident to securing new business.

2d. COLLECTION. 10 per cent. of renewal premiums, to cover collection, renewal commissions, taxes, etc.

3rd. SETTLEMENT. $1\frac{1}{2}$ per cent. of the face of death claims, to cover investigating and resisting claims.

4th. INVESTMENTS. $\frac{1}{2}$ of 1 per cent. to cover taxes, handling of investments, etc.

5th. GENERAL. \$1.00 per \$1,000 insurance annually, to cover the general expenses not comprehended in the other items."

He evidently based his formula on the experience of companies which have a very large amount of business in force, that have not even a vestige of foundation expenses left. I find that when his formula is applied to the most conservatively managed of the large companies, the actual re-

sults conform nearly to the expected. It is a fact too well known to require elaboration, that few of the expenses increase in proportion as the business increases ; that most all the smaller companies could with their present plant increase their business from two to ten fold, without materially increasing any of the expense factors, except that which relates to the getting of new business.

Mr. Whiting's formula could not be applied, without some modification, to companies which do a pure insurance business, not mixed with investment. The premiums under pure insurance are much less (although management expense is about the same) than when combined with investment, and, therefore, the percentage mentioned in the formula would produce less. The average annual premium of companies doing a mixed business is about \$38 per \$1,000, while in companies doing a pure insurance business it will probably not exceed \$25 per \$1,000. Therefore, to place the companies doing a pure insurance business on the same basis as companies doing a mixed business, it would be necessary to increase the premium percentage given in Mr. Whiting's formula 52 per cent. Other items of expense would not be affected.

(24) In the consideration of the proper assessment or distribution of expense, companies should be divided into three classes :

The first class, with less than \$100,000,000 insurance in force, will require 90 per cent. of the first year's premiums, and not less than 15 per cent. of the renewal premiums, and \$2 per \$1,000 annually, instead of \$1, for general expenses.

The second class, having from \$100,000,000 to \$500,000,000 insurance in force, could approximately meet expenses with the provision Mr. Whiting's formula would make, although as a factor of safety I would recommend, on renewal premiums, a change from 10 to 12½ per cent., and on general expense from \$1 to \$1.50 per \$1,000 annually.

The third class, having \$500,000,000 insurance in force, and upwards, may be said to be fully grown, to have had every opportunity to have their methods and working force as nearly perfect as they can be made, and to be in a position to take the advantage which a large volume of business gives in reducing the expense ratio. Such companies should require less fuel, less steam in securing new business, and should cover the first item with 70 per cent., the second with 8 per cent., while in the third, fourth and fifth items I do not believe a reduction could be effected without doing injury to the service and the business.

This grading of expense will not necessarily operate to the disadvantage of a new company, for the

reason that the larger expense of a new company is fully offset by its larger mortality savings, so that the aggregate cost of insurance in the new company will not be greater, although the expense element is greater, than in an old-established company which has attained its maximum mortality.

On account of the first year's premium being practically employed in defraying the cost of obtaining new business, the valuations, whether made according to the hypothetical or experience method, should be based on the age ensuing the age the year of entry.

OFFICIAL.

(25) The official treatment must of necessity be governed by the laws and actuarial conditions. It is undoubtedly true that there have been too much laxity and generalizing both in the legislative and official treatment of assessment insurance to bring about a healthy actuarial condition. There has been abundant criticism, the prefatories of the official reports of some of our insurance departments abounding with general criticisms and denunciations of assessment insurance, even failing to recognize the good there is in it, and the possibility of a wholesome development.

No plan or system of life insurance can be wholly measured or condemned by past failures, but im-

portant lessons may be learned from them. Failures under any and all methods have occurred in the past, and will, no doubt, continue to occur in the future. The proper official course is to study the causes of failures, and instead of resorting to wholesale denunciations, TO THE PREJUDICE OF EXISTING CORPORATIONS OF THE SAME CLASS, officials should be very careful to ascertain the true causes, point them out, and suggest remedies for them, so that if any of the existing corporations are subject to the mistakes made by the failing concerns, they will not be without suggestions of remedies. It may be said that officials are not necessarily experts, and that the definite pointing out of causes of failure and suggesting remedies therefor, are beyond their knowledge, experience, and in some instances ability. This may be true, but as a class they are men of intelligence, of earnest, honest endeavor, and good judgment. They can readily obtain written opinions from persons who are recognized as experts, as to cause of failure of an individual company, and an outline of business course under the company's method that would have prevented it. By getting the opinions of several experts, together with the possession of the data available to them, officials, whether insurance experts or not, would have no difficulty in reaching an approximately correct conclusion.

The official who cannot see any good in assessment insurance, or who is anxious to circumscribe it so as to render it impracticable, has not given the subject thorough and impartial consideration. Almost without exception an analysis of his information would disclose the fact that his opinions are due to having accepted data from prejudiced sources. A business created and sanctioned by authority of law, in which no less than three million citizens of the United States have a direct pecuniary interest, is entitled to fair, frank, impartial, official treatment. It is conceded now, and always has been, by experienced underwriters, that post-mortem assessments foster dead-heads, encourage a tremendous selection against the corporation when normal mortality is reached, thus in time ending in failure. This has been called a "rope of sand," "standing on nothing and hanging by nothing," in some official reports, but these same reports never ventured to inform the public what was needed to make it a substantial hemp rope of irresistible fibre and inherent strength. The remedy is very simple, and no intelligent actuary, or honest, practical underwriter will, for a moment, dispute it.

(26) The post-mortem assessment plan (which I never advocated, and do not now) can be made perfectly safe by requiring the insured to make a de-

posit in advance, to be held by the corporation as a common trust fund, of a sum equal to 10 per cent. of the single net premium at the age of entry, on the basis of the actuaries' table, such deposit to be held as security for post-mortem payments, to compensate the corporation for the withdrawal of healthy members, and to pay losses, if any, in excess of the tabular cost. If such advance deposits were made, then insurance could be sold on sixty or ninety days' credit, or post-mortem method, with perfect safety, provided, always, that the after-death assessments are based on the true or attained age of the insured at the time of payment.

Who can tell what the effect on the business would have been had the officials of the insurance departments fifteen or twenty years ago, when assessment companies were organized almost without number, united in pointing out how they should be organized and conducted, rather than in denouncing and condemning them. Indeed, I have heard some go so far as to say that it is not fair to the companies required to maintain the legal reserve, to permit the existence of companies of any other class. Such officials are open to the suspicion of having a greater interest in a certain class of insurers than they have in the insured, whom they are supposed to represent. There is nothing whatever in the law to prevent any com-

pany from doing an assessment business, if it chooses to do it, and, therefore, there is no foundation for the statement that it is unfair to compel one class of companies to maintain what is known as the legal reserve, and exempt the other class from it.

(27) The man who believes that a single method of life insurance can be adopted that will meet the needs and views of more than seventy million people, is dreaming. It would be as impossible to carry on the business by one method as it would be to carry on a government by one party. It would be sure to drift into a universal trust monopoly, or in effect become plutocratic, and opposed to the principles of our Republican form of government.

INDEX AND SUMMARY OF CONCLUSIONS.

NOTE.—Starting points of the statements and reasoning in this paper, upon which the following conclusions are based, are indicated in every case by the figure inclosed in parenthesis corresponding with the number of the conclusion.

(1) Assessment is the fixing of the price of insurance for each individual life by an authority in accordance with its judgment rather than by law.

(2) Any authority fixing the price of insurance should be required to show upon what assumption or experience it is based.

(3) The promoters of a company should be required to deposit with the State at least \$25,000, to be retained by it as a guarantee, until the assets amount to \$200,000.

(4) No charter should be granted by the State until the plans of the corporation are indorsed by a competent actuary, and shall have been approved in writing by the insurance commissioner.

(5) The guardianship of the State should not, in a material degree, extend beyond the period of organization. Valuation by governmental authority from data furnished by the company, of which the valuers have no actual knowledge as to its correctness, is a fraud upon the public.

(6) The present system of net valuation as a test of solvency is not applicable to assessment life companies.

(7) The net valuation system as a test of solvency has been condemned by expert American authorities.

(8) Ever-changing economic conditions render a standard of safety, on the hard and fast lines laid down in the statute, unsafe—a point illustrated by a review of our currency system.

(9) Self-government is the pride of Anglo-Americans as a people. Legislation of a paternal character, which is not uniform in the several States, is contrary to the spirit of our constitution.

(10) Governmental valuation, or State standard of solvency, condemned by representative British actuaries.

(11) Instead of governmental valuation, companies should be required to furnish policy schedules calling for sufficient information to enable any actuary, as well as insurance departments, to check the company valuations.

(12) The existing assessment laws of the several States conform in important particulars to the principles of the British law.

(13) A company once fully established, which, on the basis of its own experience, can discharge its present and future obligations, is solvent, no matter what may be the provision of the law.

(14) Supervision should be restricted to the execution of laws, the compilation and publication of reports, and to examinations made at the expense of the State by an expert examiner solely in its employ.

(15) Actuarial treatment becomes an important factor when the premium stipulated is in excess of the natural cost.

(16) Charging an accumulation, based on and resulting from aggregate and average, with individual policy liability, is an anomaly.

(17) Mathematical reserve determined by experience and policy conditions. Impairment cured by special assessment, or by scaling the insurance.



(18) Three millions of citizens of the United States hold policies of insurance to which the State standard of solvency does not apply.

(19) The process of treating original data which does the least violence to the natural and actual results is undoubtedly the best.

(20) The difference between the hypothetical and experience methods of valuation, showing a reduction of 41 per cent. in the accumulation element in the latter, illustrated.

(21) Under the experience method, a safety clause provision similar to the British statute is not only contemplated, but imperative.

(22) New companies employing the experience method should use the thirty American office experience until their own is sufficiently extended to form a substantial basis of calculation.

(23) The expense element a factor too often neglected.

(24) In the determination of a proper expense charge, companies should be divided into three classes.

(25) While official treatment must be governed by the laws and actuarial conditions, no plan or system of life insurance can be wholly measured or condemned by past failures, but important lessons may be learned from them.

(26) If advice and suggestions had been substi-

tuted for condemnation, the post-mortem assessment plan, notwithstanding its objectionable features, could have been made a success.

(27) The man who believes that a single method of life insurance will meet the needs and views of more than seventy millions of people, is dreaming.

FRATERNAL INSURANCE.

ADAM WARNOCK :

IN submitting for consideration and debate my contribution upon the subject of "Fraternal Insurance," I am happy in the fact that I am addressing an audience familiar with all phases of the question, thus making unnecessary any kindergarten instruction concerning what is meant by "Fraternal Insurance." Nor am I called upon to defend the right of fraternal insurance to exist. That it does exist, that it is so powerful in our land, that it has accomplished so much in thirty years,—all these self-evident facts prove that a need for it called it into existence.

Fraternal insurance need not be discussed in the light of a rival or antagonist of other forms of insurance. It occupies a field of its own, and has received in a large degree support from those who would not have carried any other kind of insur-

ance. It may be fairly claimed, too, that it has educated up to the need of protection for the family a great many people that may otherwise never have given the matter a thought. No better proof need be cited than the growth of the large business insurance corporations coincident with the development of fraternal insurance. Why may not this reciprocal relation be more clearly understood and then fostered and encouraged? When injudicious criticism upon one form of insurance has been made, it does not always follow that perfect faith has been established in that form represented by the critic. On the contrary, it frequently happens that such mistrust is created that, all insurance is rejected.

Is it not possible, then, to map out some common ground upon which all may meet, and, as a result of mutual forbearance and concession, assign to each form of work its own appropriate field of action? It is quite probable that such unity of action would be vastly more profitable to all concerned than a condition of constant antagonism by means of which resources are exhausted without compensating results.

The various phases of all kinds of insurance will be ably presented at this convention, and the strong points of each will be set forth by those selected and fully qualified to speak upon their

chosen themes. I will content myself with suggesting the features that commend fraternal insurance to public confidence and support and with mentioning some improvements that may be wisely adopted.

Will it be denied that fraternal insurance has furnished successfully *temporary* protection to those who have availed themselves of its beneficence? If so, the best answer is the bare statement that over \$400,000,000 has been distributed among its beneficiaries. A tree that has borne such good fruit must be good to graft upon, even if it is claimed that the tree itself shows signs of decay. The living essence is there, and proper pruning and treatment will restore vigor and luxuriant growth.

If experience shows that changes are needed in order that what has been so successful as a temporary measure of protection may be made equally successful for all time, the system possesses an inherent elasticity that makes possible even the most radical changes and amendments without destroying the fundamental object of the affiliation. The changes proposed cannot possibly be more radical than those adopted by other forms of insurance during the past thirty years. In all candor and fairness it may be added that fraternal insurance societies have not waited until compelled by legislative enactment to make needed

changes, but sometimes have been compelled to ask legislative permission for the improvements adopted of their own volition.

Logically and in proper sequence is here suggested one thought that may be urged as an improvement upon fraternal insurance. There should be uniform legislation throughout the country applying to fraternal insurance, and national supervision. The wisdom of this is too apparent to need argument. An examination by a national supervisor acting under authority of the general government would serve for all the country and be accepted perforce in its findings. Nothing we have at present inspires the confidence that would follow such national supervision and examination.

I would further advocate that each society organized be compelled to assess a minimum number of assessments each year. Naturally in the early years of its existence a fund would be accumulated in excess of demands for mortuary claims. This excess could be allowed to accumulate for the need sure to come when increased age brought increased cost by increased mortality. Sufficient experience has been gained to enable us to estimate with reasonable accuracy what reserve should be accumulated by fraternal insurance societies to cover the risk carried. With a mortuary benefit not exceeding \$2,000, the invested accumulation of the

early years would go far towards creating the reserve needed, and what balance may be required would be made good voluntarily by the society.

But if a mortuary benefit in excess of \$2,000 was promised, the creation of an adequate reserve should be made compulsory. My reason for this may be briefly stated, thus: The payment of a benefit of not exceeding \$2,000 is within the realm that seems peculiarly the field of operation of fraternal insurance. The object is to give the family of the deceased member a modest benefit that shall furnish protection when most needed, and yet be no heavy burden during his lifetime. When a benefit in excess of \$2,000 is carried, it may fairly be claimed that we leave the realm of fraternity and approach the proposition from the purely business standpoint and that then rules and regulations should be made and enforced that accord with the changed relations thus created.

The age of admission should be graduated from 18 to 45. If provision for admission of persons over 45 is desirable, such should be placed in a special class and rates fixed adequate to cover increased risk and cost.

Three elements enter into the amount collected for a life insurance premium—the mortuary cost, the expense cost, and the reserve. They should be carefully considered.

We all understand that the mortuary risk on a given life is the same, no matter what form of insurance protection is carried. Therefore the sum that must be collected to cover the mortuary cost cannot vary and must be provided for. There can be a wide divergence in the cost of management, and in this item I assert that fraternal insurance is entitled to favorable comment. That brings us to the third factor of the problem, the reserve element. The establishment of a large reserve has not always proved a safeguard against loss, and it is a serious problem yet to be solved what the outcome will be of the accumulation of the vast aggregations of money, compelled by statute law, now held by business insurance corporations. But that *some* reserve should be set aside to meet increasing mortuary cost caused by increased age, is a proposition that cannot successfully be refuted. The minimum number of assessments yearly above advocated, should be ample to cover mortuary cost in the early days of the society, and to leave a surplus that would be a substantial nucleus for the reserve needed. How much shall be added as the society increases its age must be determined and raised as experience dictates.

The mortuary cost being invariable as far as the form of insurance is concerned, the only saving to the insured may be partly in the amount of re-

serve deemed necessary, and chiefly in the expense of management. Each of these elements must be considered with greatest care. The mortuary cost can be calculated with certainty. The expenses should be, and in fraternal societies are, kept down to the lowest limit because there is no expense for a large agency force, each member of the association doing all he can to add to the membership. This is done under the inspiration of that fraternal impulse which knits the members closely together, and is in itself one of the strongest claims in favor of fraternal insurance.

There is much valuable information of a statistical nature I might present to show what has been done by fraternal insurance societies, but I will content myself with a brief summary of the most important facts culled from the latest compilations. They will serve to show the marvelous growth of the system and the widespread influence it has exerted upon our country :

NAME OF ORDER.	Organized.	Membership, 1897.	Amount Claims Paid 1897.
Ahawas Israel, Ind. Order.....	1890	2,603	\$18,114 00
American Benefit Society.....	1893	4,381	32,750 00
American Guild.....	1890	3,680	43,000 00
American Legion of Honor.....	1878	21,315	1,983,500 00
Ancient Order of the Pyramids.....	1895	3,026	16,500 00
Ancient Order of United Workmen..	1867	347,990	7,761,934 41
Artisans' Order of Mutual Protection	1873	4,545	38,000 00
B'nai B'rith, Ind. Order.....	1870	6,156	164,393 00

NAME OF ORDER.	Organized.	Mem- bership, 1897.	Amount Claims Paid 1897.
Ben Hur, Supreme Tribe of.....	1894	13,695	74,700 00
Bohemian C. C. U.....	1877	10,827	160,800 00
Bohemian Slavonian Knights and Ladies.....	1892	1,211	20,000 00
Brotherhood of the Union.....	1891	12,666	57,500 00
Canadian Order of Foresters.....	1879	27,165	152,325 00
Catholic Benevolent Legion.....	1881	46,998	1,081,407 00
Catholic Knights of America.....	1877	22,878	710,208 00
Catholic Knights of Wisconsin.....	1885	7,438	100,000 00
Catholic Mutual Benefit Association..	1879	43,628	690,000 00
Catholic Order of Foresters.....	1863	55,403	327,200 00
Catholic Relief & Beneficiary Ass'n..	1893	4,077	36,333 00
Catholic Women's Benevolent Legion	1895	4,786	14,000 00
Chosen Friends, Order of.....	1879	24,433	848,468 00
Foresters of Ill., Ind. Order of.....	1878	15,136	196,300 00
Fraternal Aid Association.....	1890	13,357	93,500 00
Fraternal Alliance.....	1891	2,519	6,047 00
Fraternal Tribunes.....	1897	2,518	4,060 41
Free Sons of Israel, Ind Order.....	1871	12,125	277,927 97
Foresters, Ind. Order of.....	1881	124,685	992,226 00
Fraternal Legion.....	1881	2,318	42,150 00
Fraternal Mystic Circle.....	1885	12,181	173,250 00
Fraternal Union of America.....	1896	5,011	22,075 00
Free Sons of Israel, Ind. Order.....	1871	11,500	232,492 00
Gen. Assembly of the Amer. Benevo- lent Ass'n.....	1894	2,445	11,390 92
Golden Cross, United Order.....	1876	32,983	494,150 00
Golden Star Fraternity.....	1882	2,097	23,315 00
Good Fellows, Royal Society of....	1882	10,378	324,370 00
Heptasophs, Improved Order.....	1878	38,256	583,400 00
Hermann's Sons of Wisconsin.....	.....	2,308	63,800 00
Home Circle.....	1879	6,293	153,696 00
Home Forum Benefit Order.....	1892	42,903	328,608 00
Independent Order Mutual Aid.....	1878	4,950	122,000 00
Independent Order of Foresters.....	1874	124,685	992,226 00
Ind. Western Star Order.....	1895	2,973	7,500 00
Knights and Ladies of Honor.....	1877	66,437	1,191,500 00
Knights and Ladies of Security.....	1892	18,427	168,967 00
Knights and Ladies of the Fireside..	1894	2,405	12,333 33
Knights and Ladies of the Golden Star	1883	5,304	60,828 00
Knights of Columbus.....	1882	17,576	87,000 00
Knights of Father Matthew.....	1881	3,480	45,200 00
Knights of Honor.....	1873	89,679	3,918,264 00
Knights of Pythias Endowment Rank	1877	51,715	1,108,180 00
Knights of St. John and Malta.....	1883	3,788	52,000 00
Knights of Sobriety, Fidelity and Integrity.....	1889	4,273	60,598 00

NAME OF ORDER.	Organized.	Mem- bership, 1897.	Amount Claims Paid 1897.
Knights of the Golden Eagle.....	1891	2,236	43,000 00
Knights of the Maccabees.....	1881	217,068	1,754,926 00
Ladies Catholic Benevolent Associa- tion.....	1890	32,273	179,500 00
Ladies of the Maccabees.....	1890	26,380	131,450 00
Legion of the Red Cross.....	1885	4,012	36,200 00
Loyal Additional Benefit Association	1889	5,373	86,000 00
Loyal Mystic Legion of America....	1892	3,606	11,000 00
Low German Gr. Lodge of the U. S. in No. Am.....	1888	5,560	14,500 00
Masonic Protective Association.....	1895	4,060	11,472 50
Modern Woodmen of America.....	1883	259,584	1,905,250 00
Mutual Protection, Order of.....	1878	4,589	54,930 00
Mystic Workers of the World.....	1896	2,545	7,000 00
National Benevolent Society.....	1894	2,509	8,468 68
National Protective Legion.....	1891	5,320	79,952 00
National Provident Union.....	1883	3,972	163,850 00
National Reserve Association.....	1891	4,336	18,500 00
National Union.....	1881	46,602	1,239,470 00
New England Order of Protection...	1887	21,950	294,000 00
Northwestern Legion of Honor.....	1884	2,496	35,250 00
North American Union.....	1895	2,717	13,000 00
Pilgrim Fathers, United Order of....	1879	23,039	352,000 00
Protected Home Circle.....	1886	23,652	157,500 00
Ridgeby Protection Association.....	1894	10,078	28,503 75
Royal Arcanum.....	1877	195,105	5,210,823 00
Royal Circle.....	.....	3,199	6,100 00
Royal League.....	1883	15,100	307,875 00
Royal Neighbors of America.....	1895	12,120	31,500 00
Royal Temp. of Temperance.....	1878	12,435	333,467 00
Royal Tribe of Joseph.....	1894	3,178	11,975 00
Scottish Clans, Order of	1878	4,335	39,750 00
Shield of Honor.....	1877	9,659	106,000 00
Supreme Council, Home Circle.....	1880	6,293	153,695 59
Supreme Council, Legion of Honor...	1879	3,396	96,000 00
Supreme Court of Honor	1895	24,217	88,300 00
Supreme Lodge, Nat. Reserve Asso- ciation.....	....	3,241	31,000 00
Supreme Lodge, Order of Columbian Knights.....	1895	4,594	26,101 36
Supreme Ruling, Fraternal Mystic Circle.....	1885	12,181	177,500 00
United Friends, Order of.....	1881	10,491	415,608 00
United Friends of Michigan.....	1889	3,246	49,284 00
Women's Catholic Order of Foresters	1891	13,869	62,000 00
Workmen of the Word	1890	97,811	1,088,558 00
Workmens' Benefit Association....	1893	5,341	29,000 00

The total membership of the foregoing list is 2,557,374. Amount of benefits paid in 1897, \$41,070,746.92.

Total payments from 1867 to 1897, over \$420,000,000.

The Ancient Order United Workmen was organized in 1867 with a few members ; in 1897, thirty years after organization, its membership was 347,990 ; amount paid in benefits in 1897, \$7,761,934.41 ; total amount paid to beneficiaries of deceased members during the thirty years, \$80,722,473.41.

The Knights of Honor was organized in 1873 with seventeen members, and in 1897 had a membership of 89,679. Paid benefits in 1897 amounting to \$3,918,264, and has paid to beneficiaries during its existence, \$58,285,224.

The Royal Arcanum was organized in 1877 with nine members, and in 1897 had a membership of 195,105. It paid to beneficiaries in 1897, \$5,210,823, and has made a total payment since organization of \$43,914,045.28.

The American Legion of Honor was organized in 1878 with nine members ; it paid benefits in 1897 amounting to \$1,983,500, and has paid since organization, \$36,784,349.93. Membership in 1897, 21,315.

Combine the four orders above named and it

shows a membership of 654,089 ; a total payment of benefits in 1897 of \$18,874,521.41, and a total payment since organization of over \$219,706,092.62.

Need more be said to justify the existence of fraternal insurance? The bare recital of the figures here given carries with it more force than the most eloquent language. Add to the system the improvements and safeguards experience proves necessary, and future achievements will dwarf into comparative insignificance the grand results of the past. That this will be done, I have full faith, for I know the unselfish devotion to the best interests of mankind manifested by the leaders of fraternal thought, and it is upon this solid rock I build my hope for the continued triumph of the benefactions of fraternal insurance.

DISCUSSION.

WM. D. WHITING :

Mr. Eldridge has presented a clearly arranged and expressed summary of the most advanced thought of the day regarding Assessment insurance—one which deserves the careful consideration of those engaged in that branch of the life business.

He candidly admits the mistakes of the past, recognizes the necessity for maintaining the statutory reserves called for by the nature of the contract (increased somewhat on short-term insurance), with the added security of a "safety clause" to replenish said reserves in the event of their impairment. I can see no objection, mathematical or otherwise, to this general programme, which has gradually been taking shape for twenty years both from an assessment and old-line standpoint. In fact, when it comes to be fully realized there will cease to be any great distinction between assessment and old line companies.

Mr. Eldridge fully recognizes this when he admits that "There is but one system of life insurance" correctly possible. To this system all attempts must eventually conform, although much time, effort and money may be wasted in rediscovering the fact. This central system is neither that of the fraternal, assessment, stipulated premium or old-line company of the present day exactly, although they each approximate toward it in the order named, with the old line company nearest to the goal.

The old-line laws were, therefore, nearest correct. And instead of having passed such an incongruous phantasmagoria as the fraternal, assessment and stipulated premium laws, it would have

been much better to have merely amended the regular statutes in those few particulars in which a change is generally recognized as being needed. There never was a time when anything, that was proper to do, could not have been done just as well under the regular insurance statutes, as under the fraternal, assessment or stipulated premium laws. Any old-line company can to-day establish a system of lodges, or put a safety clause in its contracts, which are the only essential distinctions between the several methods. When a "safety clause" occurs, the statutory reserves, while equally valuable for other purposes, cannot be used to determine solvency, until the failure of recoupment by extra assessment has been demonstrated; and no court would so decree.

That these new laws were worse than useless, is well demonstrated by Mr. Eldridge's recognition that they now actually stand in the way of reform. But he should not lay the blame for this upon legislators or commissioners. All of the earlier and fundamental laws, and most of those subsequent, were passed at the instance of the associations and societies. In my opinion the most comprehensive and needed reform in the premises is the absolute and immediate repeal of all such laws, accompanied with a few amendments to the old line law, re-incorporating existing associations,

altering slightly the computation for reserves, regulating the use of the safety clause, and making some better disposition of an insolvent concern than a mere distribution of its cashable assets. It is quite plain all life insurance is moving toward a common centre ; such legislative action would stop the starting of irresponsible incorporations, and regulate those in existence in accordance with the mathematical requirements of such contracts as they might choose to issue, and in case of failure save what might be desirable of the wreck.

There are many valuable minor suggestions in Mr. Eldridge's paper, which the time allotted to criticism debars me from discussing. The most important of these, however, is a recognition that the statutory reserve on short term policies is wholly insufficient to protect the insurance—this is equally true under old line short term policies. The remedy is that no reserve on any policy should fall below a minimum consisting of the unearned net premium and the cost of say six months' additional insurance thereunder—the six months' cost being forfeitable in case of lapse, as a set off to the damage by withdrawal. Six months' cost is a better measure of said damage than a percentage of an arbitrary single premium, which has no relation to the damage.

I am unable to agree with Mr. Eldridge's remark

that term insurance will continue to be the bulk of the business done by the associations. Insurance business in England generally began on a term basis and was practically dropped with greater experience by all kinds of companies, including friendly societies. The change is equally noticeable here, and companies generally which some time ago made a specialty of term insurance are now relegating it to the rear.

In view of the advanced and commendable stand, which such men as Messrs. Eldridge, Fouse and others have publicly taken, isn't it about time that denunciatory literature against high premiums and mathematical reserves should cease?

Mr. Fouse's paper is too discursive to attempt an exhaustive discussion in detail—many of its topics would in themselves furnish matter for a separate paper. He has, however, very thoughtfully supplied a "Summary of conclusions" which for the purpose of discussing its main features may be condensed into the following propositions:—

That an assessment company should be required to make a government deposit of at least \$25,000, and have its plans approved by the insurance commissioner before being allowed to do business. That the company should be permitted to select its own basis and method of reserve, merely furnishing sufficient data to show that its computations on

said basis are arithmetically correct. He recommends the assumption of Meech's mortality until the company has been in business about twenty years and has accumulated about \$100,000,000 of insurance, when its own past mortality experience should be substituted for Meech ; he denounces the net premium method of computation as a measure of solvency, and omits any fixed assumptions for expenses and interest.

As to the first, there never was any good reason why the usual \$100,000 of deposit guaranty for good faith should have been omitted from the assessment laws, when experience had demonstrated its necessity in every other kind of incorporation. In fact, it is difficult to understand why any such thing as a separate assessment law was ever permitted at all. There was enough law under preceeding statutes to permit any life insurance corporation to put a "safety clause" into its contracts, which is the only essential and mathematical distinction, and quite sufficient to prevent the statutory reserve from being charged as a liability to ascertain solvency, or being used for any other purpose than to determine the amount of divisible surplus or necessity for extra assessment. It has been the great misfortune of these companies that they have not recognized this important fact from the beginning. The same remark is applicable to the

new so-called "stipulated premium" laws. While a recognized improvement in several respects upon the assessment laws, they are unnecessary so far as they duplicate old line statutes, and erroneous so far as they depart therefrom. This position likewise affords a complete answer to Mr. Fouse's animadversions against the net premium method of computation. Where the expense element has been fixed by contract and a "safety clause" exists, this method is the very one to be applied par excellence, as it cannot in such cases be used for determining solvency, but merely the time and extent of an extra assessment. Should this assessment fail of realization, however, then some modification of the net method, best determinable by the surrounding circumstances, would unquestionably be desirable. But the old-line laws have always recognized this. Although the assertion has assiduously been made to the contrary, in and out of season, I am not aware of any State, chartering an existing life company, having any law which compels a dissolution upon an impairment of a four per cent. *net* reserve without some modification. In Massachusetts when such a reserve is impaired, the court may make inquiry into the situation, but is untrammelled as to what rule it may adopt for determining solvency. In Connecticut no company can be declared insolvent until the four per

cent. American reserve has been impaired twenty-five per cent. which is certainly all the margin anyone could ask. In New York a company may be made the subject of judicial inquiry when four one-half per cent. American reserve (gross valuation may be employed) is impaired, but the Court is not limited to any rule ; and yet the companies chartered by these States are doing more than three-fourths of all the old line life business of the country.

It is true that commissioners are required to step in and stop payment of dividends, and to halt new business, when a net reserve becomes impaired ; because at that point the company is beginning to encroach on future profits for present necessities. This is the proper function of a net premium reserve, to which I do not understand Mr. Fouse objects—it is in the nature of an alarm bell at the approach of danger ; not to regard which would be a fraud upon new members.

As to the approval of the original plans and rates of a company, by the commissioner of insurance, and prohibition of any subsequent change without his consent—which necessarily includes the consent of every State Commissioner where the company does business—the doctrine sounds rather strange to American ears, and seems to be a contradiction of the demand for individual freedom

and relief from paternalism, which Mr. Fouse makes so prominent in other portions of his paper. This doctrine may answer for a patch in that crazy-quilt yecept "The British system" which stretches all the way from pure *laissez faire* with fire and accident companies, five-year-board-of-trade statements unverifiable by examination with life companies, and strict paternal supervision over friendly societies, to absolute socialism through government sale of annuities and insurance at the post office. But I doubt very much whether Americans, after putting up \$100,000 as a guaranty of ability and honesty would be willing to have their plans and rates, and every modification thereof, practically dictated by that "average political accident known as an insurance commissioner," concerning the curtailment of whose discretion we have heard so much recently.

In marked contrast to the above piece of paternalism, Mr. Fouse demands that the company, for all purposes, should be allowed to prescribe its own assumptions as a basis for future reserves. I say "assumptions" advisedly, as it is quite as much a matter of assumption that a company will duplicate in the future its own past experience, as it will that of the past average experience of a combination of other companies. It is still more likely to do neither, as the rates of mortality, interest

and expenses are constantly changing. I have never understood that past experience on these three items (of which mortality is the least important except on pure term insurance, now practically abandoned) was used in any sense of expected duplication, but rather as a partial aid in guessing at the future so as to establish assumptions so high as to surely cover. These future assumptions must be higher than what is actually expected in order to be safe ; which makes a complete negation to the feasibility of using bare past experience. Suppose a company had experienced just \$5.00 per \$1,000 insurance for expenses, 5% net interest and 70% of actuaries table of mortality, during last twenty years, would any one dare assume these figures for next twenty years ? And yet these are just about the facts. I am strongly of the opinion that if the guessing is left to the company, instead of to the law, that it will be sadly abused and made to fit the temporary experiences or whims of the management, instead of the future necessities of the company. Mr. Fouse appears to be afraid of an overguess. Surely no great harm (at least comparable with an underguess) can come of this—it would merely correct itself by larger future dividends. Although perhaps a trifle too high (after excluding first year) as to mortality, with a certainty of declining interest ahead, and

with claims payable at once instead of at the end of the policy year, the present State basis of actuaries' 4% is certainly not too high a standard for future transactions, especially when companies have no real surplus over reserve.

The paper of Mr. Warnock is interesting inasmuch as it attempts to suggest a remedy for the evils which now surround fraternal insurance. The number of assessments are rapidly rising in nearly all, and being inequitably adjusted to the detriment of the younger members, threatens the disruption of the societies. This state of affairs has arisen first, because it was much easier to get a volume of business on cheap rates and misrepresent the inevitable consequences to certificate holders ; and second because these societies have taken great pains to eliminate from their official staff anyone whose mathematical ability exceeded a knowledge of the multiplication table, or who was likely to suggest that the management was incompetent.

There are but three distinct plans known to mathematicians upon which a substantially uniform number of assessments can be maintained :

1st. Level amount of insurance, with increasing basis of assessment adjusted to attained ages— which while leaving the number of assessments uniform, increases the amount of each member's payment as he grows older.

2nd. An amount of insurance decreasing each year as the member grows older—which leaves both the number and amount of each member's payments uniform from entry.

3d. Level amount of insurance and level premium from entry. This can only be accomplished by using the old line or stipulated premium ordinary life rate, which is high enough to accumulate the technical statutory reserve.

The fraternal societies avoided either of these three clearly defined mathematical propositions taught by science and a long previous experience in Great Britain ; and attempted an absurd straddle which is now bringing them to grief. They attempted the first proposition with a basis of assessment fixed at age of entry instead of attained age. Or, if you please, the third proposition, but only assessing for current mortality and not collecting that full mathematical premium which was necessary to the accumulation of the technical reserve. It is useless to recapitulate the silly arguments which they used to justify this unrighteousness—they have been demolished a thousand times—nothing but being brought face to face with impending failure has made them cease their clatter about “new blood,” “fraternal sympathy,” “stringent economy,” “few lapses and well selected risks.” While all of these are well enough

in themselves, they merely postpone and do not remove, the effects of a mathematically vicious system. Unfortunately all that Mr. Warnock has to offer towards amelioration is an additional dose of error. He says, limit the insurance to \$2,000, and age at entry to not exceed age forty-five. What has this to do with the case? If your system is properly adjusted, you can just as well write \$20,000 as \$2,000, and admit men at any age who pay the corresponding cost. If your system is improperly adjusted you cannot afford to write any amount above a mere burial fund at any age. It is these very temporary makeshifts which have stood in the way of true reform for five years. Mr. Warnock seems to appreciate the necessity for what he calls a "reserve" and asks that the societies be required to levy a "minimum" number of assessments. But he very carefully abstains from recommending the reserve which is mathematically required. If a society is required by law to have on hand the technical reserve which its form of contract makes requisite, there is no need of bothering about minimum assessments—the greater includes the lesser. But Mr. Warnock not only abstains from recognizing the only true reserve which can maintain a level premium and level insurance, but goes out of his way to give it a kick by remarking "it is a serious problem yet to be solved

what the outcome will be of the accumulation of vast aggregations of money, compelled by statute law." This need not trouble him in the least, as a fraternal society would have the same kind of a "safety clause" as the stipulated premium assessment associations are adopting, requiring the members to make good any loss which may occur in the technical reserve fund. Precisely the same problems confronted the friendly societies of Great Britain over thirty years ago. They solved it by dropping increasing assessments and adopting stipulated premiums based on old line rates and reserves. The fraternal societies of America will have to do either this, or adopt an attained age step-ladder-rate safeguarded by an emergency fund sufficient to make good the damage by lapsing. In either event the premium must be collected in advance and not *post mortem*. It is entirely doubtful whether going societies of over twenty years' standing can make the requisite changes in time to prevent bankruptcy.

In view of this, the admission of Mr. Warnock that fraternal insurance is merely temporary insurance, is well taken. But his claim as to the insurance benefits achieved from past payment of large amounts of death claims, becomes badly impaired by the immense losses which are sure to accrue to the dependents of those who have paid in a large

amount of assessments and will suddenly find themselves without insurance and uninsurable. Should the law permit a society to go on selling mere temporary insurance, representing it to be genuine life insurance?

FREDERICK A. BETTS:

It would be idle folly to attempt to discuss in the limited manner which I have felt the necessities of the convention required, a paper so elaborate and exhaustive as Mr. Eldridge's paper. It is certainly a scientific and thorough treatment of a question which has been a source of peculiar interest, not only to the insurance departments of the various States, but also to the managers of associations and above all to the insuring public. The chief reason for the bringing into the world of these assessment associations was, as has been pointed out by a speaker at a previous session, the desire upon the part of promoters of organizations to appeal to the general public from the standpoint of a corporation freed from the toils of a stringent and severe reserve fund, which had choked the life out of many weak and erring institutions. It is easy to imagine that a suc-

cessful appeal could be made upon these grounds, and had assessment corporations limited themselves to the legitimate pursuit of this object, the world would not be confronted to-day with a condition which, when I describe it as serious, I trust you will not think me an alarmist. There is no question but that we have arrived at a critical stage in the history of this class of corporations. Practical admission has been made that the present systems are unsatisfactory, and in consequence, what has been termed, a "stipulated premium law," has been enacted in some of the States. I am opposed unalterably to half-way measures of relief, and it was, therefore, a source of great pleasure to me to be able to peruse Mr. Eldridge's paper, and see evidences of a desire upon his part to waive all technical distinctions and attempt to bring the class of companies represented by him upon a firmer basis. I think that I am doing the gentleman no injustice, when I state that the position assumed by him in this document is the most conservative in which he has ever placed himself, and I believe that, had these views been promulgated at an earlier date, we should have been saved some of the spectacles which I fear will cloud our vision before a long time. The recognition of the fact that assessment companies should and must maintain re-

serve funds in order to guarantee the stability and futurity of their contracts, is a growth of recent date, although the actuaries of old-line companies have from the date of the inception of assessment insurance pointed out this absolute necessity.

I trust that the managers of other assessment companies will see the light that Mr. Eldridge has seen, in order that something may be done before it is too late. The responsibility which rests on these men takes into account not only the payments which have been made by their insured in excess of their actual cost, but also the fact that in the event of their failure, the insured are deprived of their protection, when they are in that condition and at that stage of life when they require it most.

In a document which emanated from my department, I pointed out that peculiar trait of human nature even in business men of ability, which compels them to attempt to get something for nothing. I don't know whether they ever attempt to do this in anything except life insurance and green goods, although I trust the convention will pardon my coupling of these terms.

The agency conditions of these associations, however, are primarily responsible for the misrepresentations made to prospective applicants, and this

method of soliciting has been countenanced by the home office. It is but a few weeks ago that the supervising officer of one of our States compelled an association, after an examination of its affairs, to refrain from making comparisons upon its premium calls between the amount of insurance furnished by the association and the amount which would have been furnished by an old line company. Surely if the home office be a constant offender, we can hardly expect better results of the agency corps.

Laws of mortality are in the aggregate inflexible, and assessment companies can hope to experience no favors from this source. A severe error which these corporations has made is the attempt to collect less than the necessary cost of insurance, thus educating, or rather deluding, the people into the belief that their assessments would be maintained at this rate forever.

Several years passed, and the necessity for an increase in the premium rates showed that a condition and not a theory confronted the managers. An increase was seen to be the only thing which could keep them in existence, and it was accordingly made; very naturally, howls of wrath poured into every insurance department until each coming of a mail was looked upon with horror by those who had to attend to the correspondence and assure people that these associations were apparently act-

ing within the provisions of their policy contract and, therefore, the department was not in a position to afford any relief. With but few exceptions, this elicited more howls, directed this time, however, at the heads of the insurance departments, holding them responsible for the condition of affairs; and this, mark you, from intelligent voters, who, in the exercise of their much cherished franchise, elected intelligent representatives to proceed to legislative halls for the purpose of enacting intelligent laws intended, in most cases, to prevent insurance departments from doing anything but collecting increased taxes.

I, therefore, feel that my thanks are due to Mr. Eldridge for the clear way in which he has stated his propositions and I express the hope that it will lead to future reforms.

The paper just read by Mr. Fouse, entitled *The Legislative, Actuarial and Official Treatment of Assessment Life Insurance* is a misnomer; the article should be entitled, *An Attack on the Net Premium Valuation System of Life Insurance, and an Attack on State Supervision.*

The statement that State Supervision does not go beyond the period of organization of companies, is not a fact, as witness the annual examination of the statements of the company, the additional information asked in the several States by the com-

missioners, and the examination of the companies made from time to time.

Mr. Fouse states that the promoters of the company should be required to deposit with the State at least \$25,000 to be retained by it as a guarantee until the assets amount to \$200,000. No company should be granted the privileges of doing business until they had deposited at least \$100,000. The remarks regarding the views of several eminent men, as to the net valuation system, seems to convey the impression that because these authorities criticise in some point such system that the system is wholly wrong, while the truth is that the critics of the system had reference to the unfairness in their opinion of the necessity of requiring a full reserve on the first year's premium, when such a premium is as a rule completely used up in the expenses of getting the business, and the expenses of management, and the further criticism that such valuation should not be the test of insolvency. In other words, that if on the net valuation system it be found that a company was impaired, that instead of putting it into the hands of a receiver, that it should be permitted to continue in its old business while discounting new ; but this is a very different thing from condemning the system in its entirety and advocating the gross valuation system as recommended by Mr. Fouse. The

fact that American Life companies have failed under insurance state supervision does not imply that the legal requirements for the solvency of the companies is "practically rotten," the words used in the previous paper. Mr. Fouse does not advocate governmental valuation as applied to assessment companies, considering it a farce, which it undoubtedly would be, as no assessment company could comply with the test. It is contended that a company should value its policy liabilities on the basis of its own experience. If it be a new company upon what experience would it value? If five or ten years old, upon what basis? It would seem as if the idea was that the company should have the right to value its liabilities upon any basis that the several managements thought would fit their own cases, show their solvency, and probably a surplus in addition. The paper assumes that the present mortality tables are hypothetical and are not based upon actual insurance experience, for it recommends that the mathematical reserve be calculated on the actual insurance experience instead of on the present hypothetical mortality tables. The companies and their actuaries, have always supposed that the mortality tables instead of being hypothetical were derived from the actual experience of the business but it appears that they are wrong.

It is suggested that if the policy liabilities of the Fidelity Mutual were valued on a net reserve basis, the reserve would be \$1,840,292.00 ; if on the gross basis, \$1,072,181.28. I assume such figures to be correct, and have no doubt that the Fidelity Mutual would prefer the latter method of valuation to that of the former. But this method of treating a company's liabilities is a good deal like a financial institution which discounts long paper, and assumes that the interest charged on such loans is completely earned from the day of the discount, even though the customer have the right to come in subsequently, pay off the loan prior to the maturity and claim a rebate, or, like certain investment companies which charge a bonus for lending money, include the same in their long-term mortgage, and claim it to be the profits of the year. In fact, the gross valuation suggested by Mr. Fouse is worse than any of these, and is a deliberate fraud on the public, taking credit for assumed future savings on the interest, mortality and expense, loading, on business for a long series of years, which may never be on their books longer than the first year. In short, it is discounting the future for the benefit of the management and to the injury of the public.

Mr. Fouse says "three millions of citizens of the United States hold policies of insurance to which

the State standard of policy does not apply." How many of them wish that some test as a basis of solvency had been imposed that would save them from these gross abuses of standards set up by the companies themselves.

It affords me much pleasure, in discussing a paper on fraternal insurance, to be able to agree with the writer upon some of the points mentioned by him. It certainly is a remarkable fact that the growth of fraternal organizations has been so rapid with such a slight expenditure of funds for the purpose of obtaining new business. A powerful organization has grown up side by side with Life Insurance Companies, binding its members together not only with the ordinary business interests, but also with those fraternal chains, which enable the organizations to attain such a growth ; it is a matter of congratulation that so prominent a man in frater-nalism as Mr. Warnock should seek to determine a common ground or standing place upon which to meet the professional insurance companies, in order that the business of which he is an exponent should be brought to that condition of conservatism and science which alone can guarantee a future. It was with a good deal of pleasure that I noted a vague suggestion of the necessity for reserve accumulation ; because to the best of my knowledge and belief, this is the first time that any officer of a

fraternal society has made public acknowledgment of the fact that "new blood" and kindred catch words would not prevent the eventual dissolution of this society. I felt sure that at last we were on the right track, but my hopes were dashed to the ground when I noted that Mr. Warnock was not content to accept the reserve standards of present actuarial calculations, but preferred to get up something of his own, which he dignified by the name "reserve." From what I have seen of the records kept in the office of fraternal organizations, it seems to me that the statistics which could be compiled therefrom would scarcely justify the labor and expense attendant upon a compilation of a new mortality experience. Half a loaf may be better than none, but when it comes to the question of the sufficiency of the reserve, half a step forward brings us no advance whatever. Half-way measures are useless; we must look the question squarely in the face, and if we are to place fraternal insurance upon a firm and secure basis, let us do it once for all, and not be compelled to revise our findings in five, ten or fifteen years. I don't know why fraternal insurance reserve should differ from the reserves of any company; the lives assured are the same; the methods of medical selection are certainly in favor of the company if anything, and the only difference that I can see is the one of

agency expense, to which I have already referred, and which belongs to the expense portion of the premium and not the reserve fund.

Mr. Warnock's distribution of the premium into its three elements was a decided step in the right direction, but there are two of them which seem to me to be inflexible, and do not permit of any variations from the safe standards. The other one, the expense element, is undoubtedly fluctuating, and dependent upon the economy with which the office is managed. If, by reason of decreasing agency expenses, an internal administration reduced to its minimum cost, fraternal societies are enabled to furnish insurance at a cheaper rate than old line, assessment or stipulated premium companies,—they are certainly filling a mission and should be encouraged. I think, however, that Mr. Warnock is worrying himself unnecessarily over the size and disposition of the reserve funds accumulated by the level rate companies. I recall no fraternalists who suffered to any extent from this error, if it be one, in fact, the boot is on the other foot, and a large slice of those very reserve funds which in Mr. Warnock's opinion are such a menace and danger, would, if transferred to some of the fraternal societies render more easy the sleep of the executive heads. I recognize fully the field of fraternal, but I also recognize the glaring

errors which have been committed in its name, and I trust that the awakening, which is apparent in many quarters will result in a decided improvement. In the words of my report :

“It is true that with those whose new membership continues to be a large percentage of the whole body, the annual increase in amount of assessment is very gradual, but is none the less sure, and when the period arrives, which in the very nature of things it must, that the individual payments approximate to the price asked for insurance by regular companies which guarantee no increase, the new membership falls off and healthy young lives drop out. Thereafter the increase in assessments become rapid and the society soon comes to an end, leaving many moribund, or unable to protect their families by insurance elsewhere. It is a disgrace that the laws of any State, should permit the promotion of such incompetent schemes, but such is the number and power of these societies, and the ignorance of the majority of legislators upon technical matters that the insurance departments have not been able to have their protests considered and are remitted to such supervision as the inadequate statutes, mostly passed at the instance of these societies themselves, upon the books will permit.

It is also true that in the larger and better con-

ducted of these, the extravagantly titled managements have in private been fully alive to the dangers confronting their societies for several years; but this, coupled with the fact that no sufficient remedies have been applied, give ground to the fear that they do not possess sufficient power to bring about the reforms which they confess in their annual congresses to be necessary. It is, therefore, with no unfriendly spirit, suggested that they undo the vicious legislation, which they themselves have accomplished, and seek the assistance of legislators in passing such laws as may tend to compel their own membership to accept such changes in their system as will tend to save their societies before it becomes too late. The real difficulty of the situation consists in the impossibility of convincing the common membership, who are not versed in insurance problems, of the defects of their system and its intending collapse, together with the selfishness of the older members, who are generally in control, and adverse to any change which will compel them to pay their fair share of the common burden. As the legislature created these societies, it becomes its duty to see to it that they are properly conducted. Fraternal insurance is indestructible, but the system under which most of it is now done is defective and doomed."

MILO D. CAMPBELL :

It is too patent to require discussion that assessment life insurance companies (Co-operative or Fraternal), cannot without an accumulated reserve perpetuate their existence.

New blood stimulates or intoxicates for a season, but every drop of new blood will in time require two for its own rejuvenation ; and the quantity of a company's new blood cannot be geometrically increased through the years of many decades.

But, whether such companies are to be condemned or not, depends upon the use made, and to be made of them. If intended as life insurance companies for life, they are perhaps better than nothing. If intended as life insurance companies for a few or for a term of years, then, if proper selection of a company be made, the insurance will be cheap and may last through its expectancy.

We are coming to have two kinds of expectancy in life insurance ; one being that of the insured and the other that of the company insuring.

The expectancy of life is now so well known, that companies profiting by it, tabulate it with almost unvarying accuracy, base their contracts upon it and codify it into laws.

With almost as certain accuracy can the lifetime

of an assessment insurance company with uniform membership be determined by its rates and its plans of insurance. This being true, why is it not the duty of the State to make known the prospects of an insurance corporation if it be organized upon a plan that cannot perpetuate itself?

Assessment insurance is not necessarily wrong in conception. It has features that might well be utilized by legal reserve companies, and thus perhaps lessen premiums in the early years and provide for contingencies that cannot be foreseen.

The wrong, if not the crime that has been permitted, is in *false representations*. Companies have been allowed to sell life insurance and to induce the belief that they were organized upon an unfailing plan, while insurance departments have known with almost absolute certainty that the companies could not outlive their oldest members.

It is easy to understand how the war between assessment and legal reserve companies has caused insurance departments to shrink from the conflict.

There is not so much wrong in post-mortem assessment or stipulated cheap rate companies if they are stamped or tagged in such manner that the public may know just what they are.

Assessment insurance, both co-operative and fraternal, will live, but it will be upon better rates and more enduring plans than are now common.

Would it not be well to give insurance departments the power to fix the time and prescribe the corporate existence of new insurance companies, within constitutional limitations, and to fix such limits upon the plan and rates proposed by the company?

Let such terms be limited to five, ten, fifteen or any number of years within the constitutional period. If, at the end of its term, the company shows sufficient vigor for re-incorporation, such may be easily done.

The experience of the past year, the crumbling structures of a hundred associations about us, the alarm that is sounded from within the companies themselves, the appeal that comes to us from tens of thousands of members who have been carried beyond the insurable period and stranded without insurance, all demand that the State shall prohibit, prevent and protect by its laws and through its insurance department.

The reserve fund sacred to mortality alone is the foundation of an insurance company building for time. All other foundations are of sand. But until, in many of the States, the assets and reserve funds of life insurance companies are better fortified and protected than they are at present, it will be difficult to secure the best legislation affecting assessment insurance.

The legal reserve companies are practically a law unto themselves in the management of their assets. Many of them have accumulated such colossal sums that no one department, National or State, should be vested with sole supervision. And to that part of the excellent paper of Mr. Warnock advocating national supervision I do not concur. For such change I hear no demand from policyholders. It would create a centralization of power not equalled upon this or any other continent. If such a bureau could be created by federal law (which is doubtful), then it seems to me it would be far better that federal laws be enacted curing the ills most frequent and leaving the States with supervision and home control.

But again, false pretenses and baseless promises are not alone confined to assessment insurance. When the old-line companies have fulfilled their tontine promises and have verified the examples printed in their agents' red books upon which they solicit insurance, when their investments are more carefully guarded from speculation, when values of real estate and real estate securities are what they seem, when nominal surplus becomes actual surplus, when a false promise becomes as much a crime as a false pretense, when these things shall be enforced or punished as justice may require in legal reserve, and honesty in assessment insurance,

then will the State and its insurance department have fulfilled their duty to the public.

An assessment company collecting a reserve for mortality purposes should have its policies valued periodically upon some recognized table of mortality. If found deficient, an assessment should be ordered to make good the reserve at once.

The reserve element of every premium should be definitely fixed, and to use it otherwise or divert it to any other purpose should be made a statutory crime.

At present almost any kind of a concern may incorporate and start out as an insurance organization. The State grants the charter, and so long as its officers keep out of the penitentiary, it demands protection from the State and its insurance bureau, no matter what may be its prospects. It requires no prophet or soothsayer to predict the events of failure and consequent disappointment in the field of assessment insurance within the next few years. Some companies are trying to cure their past mistakes; a few will succeed, others are too far gone for help.

The question presented to us is one of great importance. Not how we can perpetuate promoters and officers of such companies for a few years more in office, but how we can serve half a million policyholders in such companies who are being flattered

and cajoled into the belief that they have life insurance for life.

Suffice it to say that the duty of the State, of which we are the representatives, is not so much to devise plans as it is to protect policy-holders against deception and fraud. It is not so much whether the annual premium rate shall be five, or fifty dollars, but rather to place the stamp of the State upon an insurance company and to let policy-holders and the public generally know what the State knows.

WILLIAM A. FRICKE :

THE more this question is given investigation and discussion, the stronger grows the conviction, that it was a mistake to ever permit a distinction such as level premium, assessment, and fraternal, to creep into the statutes.

That assessment insurance has done much good, and has also carried great evil in its train, all are agreed on. It has paid millions to the widow and the fatherless—stimulated men to better lives and educated them to the necessities of life insurance.

It has also left thousands upon thousands of men without protection and a future of grim despair and want for their loved ones.

It has brought home to these thousands and other thousands the fact that the business of life insurance can be conducted safely only by one of two methods :

1. The premium must be sufficient to enable the creation of a reserve sufficiently large on each policy, to make up future deficiencies, or equalize the increasing hazard of increasing age by diminishing the liability of the company ; or

2. The premium payments must be an increasing amount to at all times cover the current or actual cost according to the attained age of the insured.

This being true it will require wise legislation to save that which is good and prevent evil for the future. No fair-minded, honest man, desires to injure the honest assessment association or fraternal order, but coining new names and grafting worse laws upon bad statutes will give no relief. We must go back and undo the wrongs of legislation which made possible the failures of the past. Tirades of abuse and ridicule will do no good,—preaching recognition of the laws of mortality and the benefits and necessity of reserve accumulations are of slow growth. The mistakes of the present plans and practices can be corrected without injury to a single honest assessment association or fraternal order by the enactment of the following as a law :

“ The commissioner of insurance shall annually value, according to some standard table of mortality, with interest not exceeding four per cent., the policies of all companies and associations organized in this State, and of all companies and associations of other States authorized to transact business in this State, unless certificate of such valuation by the insurance commissioner of such other State is furnished, and whenever the actual funds of any such company or association are not of a net value equal to the net value of its policies so calculated, the company or association shall be prohibited from issuing any new policies while such deficiency exists and the commissioner of insurance shall, if necessary, issue an order upon the company or association to make good such deficiency by an assessment upon its policy-holders.”

Such a law would not injure a single honest company or association transacting the business of life insurance.

It would do away with all the objections to the present system of net valuations and give the policy-holders added protection.

It would leave to each company, association and fraternal order the opportunity of giving insurance at less cost by taking into consideration those factors which experience has shown can absolutely be depended on to lower the premium. It would

bring about a competition in economy of management which of itself alone will mean a lower rate.

It will kill off the fakes and frauds, and it will give to the honest association and fraternal order an honest name and standing as life insurance organizations.

HOW TO EXAMINE A LIFE INSURANCE COMPANY.

WM. D. WHITING :

I N order to do anything effectively, and with the least expenditure of time, labor, friction and expense, it is necessary to know from the outset pretty nearly what is to be done. The powers and duties of insurance commissioners are embodied in the statutes of the several States ; and while it is obligatory upon them to see that these statutes (and in some instances the common law) are enforced, it is equally their duty not to overstep the powers conferred upon them. Therefore the very first thing to do is to make yourself familiar with the laws of the States conducting the examination. It may sometimes become expedient, however, when the State laws are narrow, in order to make an examination acceptable to other departments so as to minimize the number of examinations, to cover such points of investigation as may interest other States as well.

The requirements of an examination may be generalized as follows:

Financial :

(a) Verification of sworn statements filed with the department.

(b) Subsequent financial changes to date of closing examination.

Legal :

(a) Compliance with general statutes, charter and by-laws.

(b) Compliance with laws regulating investments, deposits, taxes, notices, surrender values, discrimination, &c.

(c) Compliance with contract obligations, payment of claims, &c.

Management :

Peculation, fraud, waste, peculiar agreements for compensation, proxies, &c.

Nepotism, loans to officers, directors, &c. Insufficient rates, selection of risks. Misrepresentation in literature. Sharp practice and skinning claims, surrender values and dividends to tontine policy-holders. Incompetency, bad investments and methods.

It has sometimes been questioned whether commissioners have the right and power to go into this third division, and to comment upon points of management. There is no doubt that in this di-

rection, as in all others, such power may be abused or exaggerated unnecessarily and offensively. But it seems to me that this power is a necessary inference to the requirement that the "condition and affairs" of the company shall be ascertained and made public. Although this language sounds in the present tense, for all purposes of life insurance, so-called present conditions can only be ascertained by discounting future events; and the present solvency of a company means not alone its ability to meet outstanding, but also future claims. The *trend* of its management, quite as much as its present assets are involved; for although now commercially solvent, a continuance of present management may mean certain ultimate failure. It should also be borne in mind that the leaning of modern legal decisions is in the direction of taking from individual policy-holders the right of direct interference in a company's management and towards construing this power as having been delegated to the insurance departments—this has been most noticeable in regard to prayers for injunction, mandamus, and accounting.

Theoretically, a company is managed by its policy-holders or stockholders through their own selected Board of Directors, and they have the means of remedying and controlling all acts of management; thereby making any interference in

acts purely managerial, from any other source, an impertinence. Such is the general attitude of the insurance press towards the departments. But as a matter of well-known fact but few companies are managed in this way. By reason of the proxy system, the great extent of our country, and necessary absorption in their own immediate business, very few policy or stockholders ever attend an annual meeting and could not act intelligently if they did, unless the Departments shall from time to time make public those acts of bad and dangerous management which cannot be reached by statement blanks, even when truthfully returned.

Having generalized the points upon which information is desired by examination, it becomes necessary to arrange a systematic plan for obtaining it. A most important item to this end is the selection of the examining force upon which all the details and the success of the investigation will depend. Such has been the rapid increase in the demand for examinations of insurance companies in the past ten years, both as regards number and thoroughness, that the supply of competent examiners has not kept pace with the requirements; making it a matter of serious difficulty for the smaller departments to provide themselves with experienced assistants. One consequence has been

that in many instances merely accountants and bookkeepers have been employed, whose examinations have consisted of little more than a counting of assets and a partial verification of a trial balance. A glance at the foregoing analysis of information necessary to be obtained, shows that a knowledge of actuarial and legal matters is involved in addition to that of an accountant. It has, therefore, been found desirable, in cases of any magnitude, to employ actuaries, lawyers, accountants and minor clerks, and if the examination is a small one which does not justify such expense, the single examiner must have a fair knowledge of all three branches to do his work efficiently. This is equally true of the one who is put in general charge of the whole force of a large examination. Upon him falls the duty of assigning and supervising the work to be done by others ; of receiving their reports, and of selecting and marshalling all the essential results in a final report to the commissioners of insurance.

Assuming that a proper force has been brought together, and a competent actuary put in charge, the next step is to lay out the work. Unless it be desirable for certain reasons which seldom exist, to spring an examination upon a company suddenly, it will be found of material assistance to request it to have certain schedules made out in advance in

a prescribed manner and form, and furnished on the opening of the investigation, as follows :

Copy of last sworn statement, including full lists of real estate owned and loaned upon, bonds and stocks owned, collateral loans and bills receivable, policy loans and premium notes, cash deposits, agents' balances, deferred and outstanding premiums, premiums paid in advance, death and endowment claims and instalment and annuity claims unpaid, and surrender values and dividends un-lapsed.

Each list to be properly arranged, with such information as past due and accrued interest and blank columns, necessary for your ultimate purpose.

I have found it most convenient, commencing at the beginning of the copy of the company's last sworn statement, to mark each item thereof with the initials of the assistant who is to verify it, reserving some of the more particular items for the examiner in charge. The appropriate list, above-mentioned, can then be handed to the respective assistant to which the item belongs, and the whole force be put to work immediately. By coupling each of your assistants with an appropriate clerk of the company, the checking can be expedited. With a little skill there is no danger in thus using a company's employee to call off the lists while

your assistant holds the original data. In this way also your assistants are less apt to make mistakes of their own, by having some one familiar with the data at their elbow to make suitable explanations.

The commissioners themselves are usually on hand about this time and may want to participate in the work. If so, the item with which they are apt to be most familiar and can do the most good in the shortest time—they are generally restless men—is to count, and check the list of bonds and stocks on hand. But you will have to be a little particular in insisting upon a careful checking of interest, percentages and dates ; whether any past due coupons are attached and a correct description of the securities including optional payment dates. Otherwise you are sure to have trouble when you come to make up over due and accrued interest and market values, and have to do much of their work over again. There is seldom reason for taking down the numbers of securities—unless there is ground to suspect that some have been borrowed or exchanged for the occasion. Even then, it is easier to discover such a trick by tracing the payment for securities (and other important assets) into the cash book and calling for the returned checks and other original evidences of purchase. Of course, even this may be frustrated by exchanging

checks and memoranda of sale as well as securities. But such a transaction will be of recent date, as rogues seldom trust each other long, and the similarity of dates, amounts, &c., and discrepancy in real value of securities apparently sold with the sum apparently obtained, together with the general atmosphere which is inseparable from people engaged in a fraud, will awaken your suspicion; and you can put the officers separately under oath and written examination. This never fails to bring out the true inwardness of a transaction. When skillfully done it has all the efficacy of an examination of witnesses in a court of law, and I have found it of great value in getting at facts when there existed only a suspicion to go upon; and where the sifting of an account was difficult, tedious and expensive. I once succeeded thus in uncovering a gigantic fraud, which sent the officers on a run for other parts, and the company into the hands of a receiver, which had defied the scrutiny of books and papers for nearly two months. I recall a very creditable entire examination, made by a lawyer wholly in this way, assisted by an actuary in framing his questions after a cursory examination of papers, and by a stenographer in taking down the answers of officers and clerks.

The different lines of an examination are of unequal lengths, and the examiner-in-chief should so

arrange matters as to expedite those which will consume the most time and keep his whole force employed as nearly as may be to the end. For instance, the lists of real estate owned and loaned upon must be checked with the deeds and mortgage notes by the attorney employed; and the titles passed upon. A separate sheet for each parcel will have to be prepared containing a condensed description or plot, with memoranda of the office number, book and folio, where recorded, &c., in order that said sheets may be arranged according to localities and be forwarded to someone resident therein for appraisal, and to ascertain if the title still remains in the company without incumbrances. This is the longest item of examination ordinarily, and may require either that it be started before the general investigation begins, or that a double force be employed upon it. Ordinarily these sheets are sent to the Insurance Commissioners of the States in which the property lies, as they generally have means for their speedy and inexpensive appraisal and search; besides being interested in examinations and knowing just what s wanted.

Much of the work concerning real estate can sometimes be curtailed. Thus the certificate of title signed by well-known law and record firms and title companies may be accepted down to their

dates, and the search may be sometimes limited as from the date of a previous department examination. There is a strong presumption in favor of small properties acquired through public foreclosure if the papers are regular; and also in favor of the regularity and sufficiency of a mortgage upon which the interest has been paid for some years with an acknowledgment of recent date from the mortgagor that the debt is still outstanding.

This latter is especially important when there are a number of farm mortgages, the interest upon which is collected through agents who likewise have been in the habit of placing loans and receiving the principal. Such agents have been known to continue interest payments to the company long after having collected and pocketed the principal. A fair judgment of the value of foreclosed property may sometimes be obtained from the company's recent sales as compared with cost or ledger values. I have never yet found the deductions necessary to be made by reappraisal of a considerable list of general mortgages exceeded the amount of past due interest outstanding. Besides, it should be borne in mind that on an average mortgages have about three years to run before they will be paid off, and carry over 1% more than the average general rate of interest on investments. This would entitle mort-

gage investments to about 3% premium if in the shape of an ordinary marketable security ; and for which premium the company gets no credit in its statement.

It therefore generally occurs that by omitting any credit for past due interest and said future interest premium, outstanding mortgages may be accepted, as a whole, at their face without incurring the expense and delay of an appraisal ; and in scarcely any event is an appraisal necessary beyond those parcels which indicate weakness from local causes or non-payment of interest.

Ordinarily a valuation of the company's policy obligations as of the date of the last sworn report has already been made by one or more departments. If this has not been done, it should be instituted immediately, on account of the length of time necessary to complete it. The verification of this work will be mentioned later.

The work all having been laid out and assigned to different assistants, it will now be well for the chief examiner with his bookkeeper to compare the trial balance of last December 31st with the company's sworn statement to see if they agree, and what items of the ledger have been combined or subdivided in making up the statement. It will also be desirable to inspect accounts involving profit and loss items and the journal closing entries

for the year; in which places attempts at trimming accounts for making public statements are apt to appear. This will also give opportunity to become familiar with the company's system of books and method of bookkeeping. The verification of the trial balance itself from the ledger, and of the latter from the various books of original entry (Cash, Journal, &c.), and the justification of these by original documents, vouchers, &c., may be then left to your bookkeeper and accountant. The last item, comparison with original documents, is a tremendous undertaking and cannot be fully covered within the limits of time and expense at your command when the company is of any size. This, among other things, makes it important that examinations of all companies should be made within intervals of say three to five years, in order that the ground to be covered by the next examination may be restricted to reasonable limits. It is also desirable that the same force, as near as may be, shall be employed upon the same company on account of the familiarity which it has gained, through previous examination, with the system and affairs of the company. This is a strong argument in favor of each department making the examination of its own companies. Fortunately many of the items of receipts and disbursements may be so closely verified by balances, estimates and

comparisons that it will not be requisite, as to them, to call for original documents and vouchers. For instance: if the total amount paid for salaries monthly agrees substantially with the pay roll and fluctuations are explained satisfactorily, the amount paid for medical examinations corresponding closely with the new business written, and commissions paid agents follows approximately a percentage of the new and renewal premiums, it will not be necessary in general to examine such accounts item by item. The same may be true of printing, advertising, and a lot of minor accounts, when the amount expended has been fairly uniform for years and does not exceed the percentage usual to such items in the average company. Certain items may also be checked by balance—for instance: If the unpaid claims carried over the year before are added to those incurred during the year, and from this is subtracted those paid, compromised and dropped, the remainder should equal the amount of outstanding claims at the end of the year. For instalment claims interest must be added. Thus, four items of the statement check off together. It is unnecessary to enlarge upon the numerous checks, balances and close estimates available at this point of an examination, as they are generally known to the departments and applied upon

statements as tests of accuracy when they are filed annually.

It frequently happens that the examiner can also avail to some extent, of the work done by the auditors appointed by the directors, stockholders or policy-holders at annual meetings, to go over the accounts of the management and verify the books and annual statement. When such auditors, upon your inquiry and personal examination, are found to be responsible, independent and competent men, their reports (with the foregoing checks, balances and estimates) may be of value in determining the extent to which it may be desirable to avoid duplicating the work they have already done. It should likewise be remembered here, that the officers and clerks may be put under oath and examined personally as to the existence of any irregular or improper items being included in an account.

Certain accounts, however, should be independently examined, by reason of the information gained therefrom regarding other branches of the investigation. Such as payments of claims, surrender values and dividends, in order to ascertain whether paid promptly and in full, and whether illegal discriminations are being made. It will be desirable to discover whether adjusters are being paid on the basis of a percentage of salvage,

whether taxes are correctly paid, and the nature of the items composing "legal expenses" and "commuted commissions." Also the extent and manner of payments to officers and Directors, and whether they are using the concern for personal loans, as a dumping ground for incompetent relatives, or in aid of private enterprises.

Ledger assets have all been listed and are in the hands of your assistants to be verified by inspection of original documents. Non-ledger assets, such as interest and rents due and accrued, and market values over (and under) book values, are best made out upon the same lists, and with the aid of the same assistant to which the subject matter belongs. A deduction should be made from interest and rents accrued, for the cost of collection, and also for any amounts paid in advance and therefore unearned. Loans on policies, premium notes, premiums deferred and outstanding should be compared with the department valuation registers, to see if the policies upon which they occur have been returned as in force, and whether the amounts claimed as an asset are sustained by the reserves charged against the policies.

We have now reached in regular order upon the statement blank, the division of liabilities, the largest item of which is the reserve. Besides the incidental checks just mentioned, it will be desir-

able to make a complete comparison of the company's registers of policies in force with those of the department ; and to check the latter again with the premium receipts, dividends paid and outstanding, list of premiums paid in advance, claim and surrender value payments, and those carried as a liability, to a reasonable extent ; so as to be satisfied that no policies in force have been omitted, nor those which have ceased been included. It will also be necessary to ascertain whether policies marked off as lapsed, and not appearing in the list of those entitled to a surrender value, ought not to appear as extended insurance. Mathematically an addition of about 1% should be made to the reserve on account of the payment of death claims before the end of the policy year, as obtains in British and Continental statements of life companies.

In entering up unpaid claims an estimate should be added for deaths which have occurred during the calendar year for which notices have not been received on December 31st. The basis of the estimate is derivable from previous years' experiences; but when the examination is made some time after December 31st, the actual amounts can be obtained from the claim-book or envelopes in which matters relating to each claim are kept. This procedure merely follows the general rule that, when an un-

disclosed liability actually exists, it must be taken into consideration even although the amount must be estimated. The company's docket will be of use in arriving at the "resisted" cases together with the minutes taken from your examination of "legal expenses" and the papers contained in the claim envelopes. It has always been my custom to make a reasonable deduction for cases which appear to be properly contested; and, in general, after allowing for costs of settlement and litigation, the figures come out remarkably close to one-half the face of the resisted claims.

Liability for unpaid dividends should include the dividend due on the (assumed) payment of outstanding and deferred premiums. Liability for unpaid surrender values is properly subject to some discount for those policy-holders who will neglect to apply in time under the terms of their policies or statutory limitations; and allowance in critical cases should also be made for the probable lapsing gain to be derived from the non-payment of outstanding and deferred premiums. This is strictly logical, as we deduct all excess of said premiums above reserves upon the theory of loss in case of non-payment; and such practices are not anticipations of future profits as they relate to past annual due-date events. Unpaid bills, fees, etc., must on December 31st be largely a matter of esti-

mate, based on past experience ; but when the examination is made several months after December 31st, accurate amounts can be obtained by analyzing the cash book payments to ascertain whether bills since paid refer to obligations outstanding on said date.

An eye must be kept open throughout the examination for extraordinary liabilities, and this will generally be found to be the most prolific field for discoveries. It will sometimes be found in the direction of carefully concealed borrowed money, important lawsuits, surrender values promised in excess of reserves, premiums below net rates, accumulated tontines which cannot be used by the company for future expenses or deficiencies, special contracts, suppressed taxes, &c. In order to catch such matters, it will be desirable among other things to scrutinize carefully the deposits in banks towards the close of the year to see if any "cats and dogs" have been deposited as cash ; to read carefully the policy forms, literature, rate books and agents' manuals ; peruse all so-called private letter books which contain correspondence concerning the company's business not intended for the clerks to see. Remember that when an officer puts a company letter into his personal letter book, that book becomes the property of the company, by his own act. It will also be well to run down

the *Insurance Law Journal* to note the frequency and character of the litigations in which the company has been concerned, the last few years of which may be still unsettled—I have found valuable hints in these decisions.

Having brought the financial part of the examination down to the preceding December 31st, it becomes necessary to go through the subsequent business to the date of closing the investigation, in a general way, to ascertain whether anything out of the ordinary course of routine business has occurred. This will usually consume but little time, as you and your assistants have become familiar with the books and methods and will already have covered much of this ground in other ways. You should require your assistants to furnish you with a written report of each distinct part of their work as soon as completed.

We have now ascertained the company's surplus on a *net premium basis*, which merely means that it has so much to spare without anticipating any future profits, *provided* that future mortality, interest and expenses sustains the assumption contained in the net premium, reserves, loading and gain from lapses. We can only judge of the sufficiency as to this important future *proviso* by ascertaining the present trend of the company. If it shall be found that the management is carefully

selecting its risks and investments by its current gains from mortality and interest, that its expenses are kept within the contributions therefor and that it is protecting itself against lapsing by a sufficient surrender charge or the reverse, the facts are entitled to be noticed as a necessary element bearing upon the company's ability to carry out its contracts and as to whether the above net premium surplus can really be spared or is an unsafe assumption. The gain and loss exhibit, introduced into the blanks three years ago, is the only source from which this information can be analytically derived, and should be carefully checked by the examiner-in-chief. I have used it since 1876 in examinations, not only for the above purpose, but as a general check upon the accuracy of statements.

The second division—legal—of the examination will, of course, be conducted contemporaneously with the financial division, and principally by the examiner-in-chief during periods when not engaged with his assistants. I have found it most convenient to read and make notes from the general insurance statutes, the charter and by-laws, board minutes and those of principal committees in the order named.

This will bring together the legal limitations upon the company's powers and its most im-

portant acts in chronological order, and give an exact history of the company. Next run over its investments, deposits, etc. (subdivision *b*), to ascertain that these have been made with due compliance of law. It will then be desirable to take up the company's contracts and literature to know just what it has promised to do ; the performance of which can be ascertained from your assistants. It is rarely that an examination fails to disclose some breach by the company in this legal division. On account of its general character and intimate relation with the other divisions, it is desirable for the examiner-in-chief to take it up as soon as his assistants get well to work upon their assignments.

The third division of examination—as to the character of the management—is practically included in and covered by the other divisions, and is only introduced here under a separate head for the sake of analytical completeness. Whatever of speculation, fraud, misrepresentation, sharp practice, waste, incompetency, etc., may exist, will have been developed by the facts disclosed by the financial and legal investigations mentioned. I have not attempted in this brief paper to go into minute details as to either items or methods, but rather to give a general and suggestive sketch of the outlines of an examination, assuming that the

skill of the examiner will be sufficient to supply those minor points which could hardly be referred to herein without prolixity and confusion of the general scheme. Some

GENERAL REMARKS

may, however, not be out of place. Ordinarily, the very atmosphere and reputation of an office will direct an expert examiner towards its weak spots, enabling him to concentrate effort in the right direction and to judge correctly as to what may be omitted. This is important, as he rarely has an unlimited supply of either time, men or money at his command to enable him to go exhaustively into every nook and corner of past transactions. Postponing and skinning claims, high-priced adjusters with salvage commissions, and borrowing funds are a sure sign of embarrassment. Nepotism, loans to officers and directors, compensations other than salaries, investment in personal enterprises, generally accompany weak management. When the management is either embarrassed, weak or incompetent, wrongdoing is nearly sure to be found somewhere. It is generally wise, when a supposed defect has been discovered, to give the company an opportunity for explanation. In this way an inexperienced examiner will avoid many "mares' nests", and it becomes un-

necessary to exhibit a draft of your report to the company before engrossing and filing it. Remember always that the profession of examiner is not only one requiring a broad range of experience and skill, but is eminently one of trust. You will learn many things that are in the nature of "trade secrets" and "personal relations" which have no direct bearing on your report, and should be considered as "confidential information" not to be hawked about. A duty is likewise imposed to make the examination as economically as possible, and to avoid the temptation of unnecessary protraction for the sake of fees. It is also well to bear in mind that your report is nearly sure to be attacked. If it bears hard upon the company, it will criticise it as a matter of self-defense; if otherwise, the company's enemies will not be sparing in their insinuations. If both attack it, as sometimes happens, you may console your conviction that examinations are a thankless task, with the sweet reflection that you have about struck it right on that job.

BRADFORD K. DURFEE :

THE examination of a mutual company must cover a broader field than that of a stock company.

Losses, if any, in a stock company fall upon the stockholders, and the main point in an examination of such company is not to its methods so much as to its solvency, but in an examination of a mutual company, it is as necessary to examine its charter, constitution, by-laws, minutes of proceedings, applications and contracts, as it is to examine its methods of bookkeeping and arrive at its exact income, disbursements, assets and liabilities. It is not a question of its present solvency, but also a question as to whether its methods of doing business are of such a character as to reasonably promise its future solvency. The register of death losses should be compared with the losses paid, whether paid promptly and the vouchers therefor. Resisted losses should be investigated and the reasons obtained for refusal to pay. The amount of insurance written, the amount marked off and the amount in force should be obtained. Investments should be carefully inquired into, titles scrutinized and actual cash value obtained, commissions to agents, salaries of officers, and other expenses of procuring business should be closely examined, and whether economy is practiced or otherwise; the policy and propriety of advances to agents, whether any officer or director receives any compensation whatever other than salary, whether the reserve or emergency fund is sufficient to

comply with the law ; vouchers should be produced for all expenditures and the sufficiency of the bonds of those handling the funds inquired into. Finally, the investigation should be fair, impartial, and without fear or favor, bearing in mind that unnecessary adverse criticism that would injure the association, would be an injury to the members who are the association, and perhaps destroy the faith of the insured as well as rob the widow and orphan.

CHAPTER II.

FIRE INSURANCE.

FIRE INSURANCE.

JUDGE D. OSTRANDER :

THE benefits of insurance are numerous and embrace all classes ; its fundamental idea is essentially socialistic. It contemplates the equalization of a class of misfortunes to which all are subject. Property owners concede something of their reserves for mutual relief and protection. The underwriter is the agent or middleman ; he collects premiums from the many and pays losses to the few. While only a small portion of those who pay the premiums ever receive the contingent indemnity promised, all are incidentally benefited ; all are relieved from the apprehensions of a possible loss. Anxiety in regard to an unexpected and unprovided-for class of misfortunes is dissipated ; *statu quo* is assured and confidence fortified. Now, this is important, for it promises stability, and out of this promise comes the courage and the assured power to accomplish great enterprises. Disasters come, but they are repaired ; credit is undisturbed and a long train of compli-

cated evils, affecting many interests and many persons, become only temporary or are wholly turned aside. Without the guarantee of the insurance office, credit would be restricted and every business operation, large or small, would require a reserve capital, something withheld from the venture to make good a class of losses which are always liable to befall. Take away the insurance policy, and the limitations of the business man would be restricted, timidity would take the place of confidence, and thus his usefulness would be diminished. Our great merchants and manufacturers are large borrowers of money; credit exists only by confidence. This is based on security. When that is taken away, the loan will be withheld or rates of interest advanced to cover the speculative character of the ventures.

It was necessary for the feudal lord to have a fortified castle. There were the moat and the draw-bridge, and an armed force to protect his possessions against marauding and unfriendly neighbors. A large part of his time and his energies were devoted to protecting that which he possessed.

In the evolution of society the moat and the draw-bridge have disappeared, and under the protection of the law our lives, our liberties and our property are found to be reasonably safe from the evil-doer; but fire, which is indeed our most valued

friend and servant, when the occasion arises defies the law, and the police are as helpless as Brownies in a tempest. Every person who owns perishable property understands this disquieting fact, and it is understood, too, that disasters which proceed from fire may be minimized so far as each individual is concerned, by co-operation through the insurance office. The underwriter is more than moat, draw-bridge and police combined. Experience, however, furnishes many instances where protective agencies have also been oppressive ones ; at the extremity of the long arm stretched out to shield a people's liberties has often been found a greedy, grasping hand. It is a maxim that "for everything we have, we must pay the price," but it is our right, and sometimes even our duty, to inquire whether the price is a reasonable one. If we would be relieved from anxiety in regard to our wealth taking the wings of fire and flying away, we must insure ; but what about the cost ?

I have seen it recently stated that there were in the United States one hundred thousand insurance agents. Behind this vast army of "invasion and occupation" are seen in dim outline the shadowy forms of another good-sized army, consisting of generals, major-generals, brigadiers, colonels, majors, captains and corporals ; and still farther back,

in the deeper shadows is seen the army of State supervision. Every one of those who make up the rank and file of these several armies, officers, soldiers and hangers-on, whether they render service or not, must be fed, clothed and housed at the expense of the commissary of the policy-holder. It is probable that there are not less than two hundred and fifty thousand persons in this country who are chiefly cared for in the management of this business.

One who is able to get his head above the clouds and calmly survey the situation will, I think, find no good reason for encumbering so simple a business as insuring property with so much expensive and complicated machinery,—the providing and operating of which must be paid for by those who have indemnity.

Insurance is a necessity and should be sold for what it is worth. Nothing should be added to increase the cost of a policy that is not required to make its security absolute. The expense of State supervision and the annoyance of unwise legislation can, I think, be done away with and much complexity avoided by placing the control of the insurance business in the hands of the general government. While insurance may not be commerce in a technical sense, it is no less an interstate business than banking, and is as properly a subject of federal

regulation. Let Congress devise a general law authorizing the organization of companies to insure, and provide a form of policy which will be proof against the intermeddling of forty odd State legislatures, with strong wills, inexperienced judgment and crude ideas, and many of the difficulties which now exist in the conduct of a useful and indispensable business will I think soon disappear.

As we have now both National and State banks, so we might have both National and State insurance companies, but the former should be relieved wholly from State control and supervision. For the better protection of the policy-holder, the national companies might be required to invest their capital in United States bonds, and deposit the same with the government. These companies should, of course, be required to make annual or semi-annual statements of their business to the proper department, and be subject to examination as in the case of banks. This can be done, I think, under the provisions of the Constitution, authorizing Congress to legislate for the "*general welfare of the United States.*" The interests of the whole people are involved. The insurance office is not a local institution, it is as ubiquitous as the bank; where property exists, there is also indemnity to be found.

It was stated by Mr. Justice Field, in discussing the case of the County of Mobile *vs.* Kimball, 102

U. S., 696, that so far as the exercise of power relates to matters which are national in their character and require *uniformity of regulation* affecting all the States, the power is exclusively in Congress.

If one should doubt whether insurance is a means of contributing to the general welfare of the people, let him for a moment consider the difficulties that would be experienced in respect to both domestic and foreign commerce, if insurance was withheld. A few persons of great wealth would soon control the markets, *for none others would venture* where the risks were so great.

There are subjects concerning which both the Federal Congress and the State Legislatures will have power to act, and when this occurs the right of Congress in case of conflict will always be paramount. When the State and National Legislatures act independently in relation to the same matters, with such different purpose and effect as to render impracticable the enforcement of the separate laws, the State should withdraw its action in deference to the superior authority of the National government. If this is not done, the State legislation must be treated as nugatory, for the general government is supreme when acting within its constitutional powers.

The word "Bank," I think, is not found in the Federal Constitution, yet the Supreme Court of

the United States has held in several cases that the Congress clearly acted within its implied powers when creating our national banks. The Courts have very properly reasoned that while "banks" were not a necessity in the too literal meaning of the word, they were a convenience, and that the facilities they afforded approved them as agencies for promoting the general welfare. It was said in *McCulloch vs. Maryland*, 4 Wheat., 316: "Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate and which are not prohibited, but consistent with its letter and spirit, will be constitutional."

See also *Osborn vs. Bank of U. S.*, 9 Wheat., 708, and *Farmers' and Mechanics' National Bank vs. Dearing*. In this last case Mr. Justice SWAYNE said: "Whenever the will of the nation intervenes exclusively in this class of cases, the authority of the State retires and lies in abeyance until a proper occasion for its exercise shall recur."

Besides the necessary expense of dealing with a large number of State departments, having different views and sometimes making demands of an unreasonable and vexatious character, it has frequently been shown that State Legislatures have too little honesty and too little intelligence to safely deal with questions of so much importance, requiring large experience and expert skill.

In the National Congress will always be found men of larger business capacity and experience, who will understand the importance of this subject and be able to consider it apart from petty prejudice and personal interest. It is not that the regulation of insurance presents so many difficult questions to the Legislature, but that it should be freed from the intermeddling of persons who have no clear comprehension of its necessities, and hence are unable to deal with it understandingly. It is seldom regarded by the legislator as a strictly business proposition, to be protected as such and controlled in such manner as to increase its usefulness to the policy-holder, without detriment to capital and the permanent interests of society. Very much of the vicious State legislation has proceeded from a class of very small statesmen who seek to magnify their services to the public by antagonizing the interests of corporations. They ignore two important facts: first, that corporations are indispensable to the well-being of society; that they are made up of our most useful and public-spirited citizens, incorporated for the purpose of uniting their capital and their strength in promoting enterprises of special utility.

An absolute monarchy, it has been said, is better than the tyranny of a mob; despotism is far more endurable than anarchy; and even a trust,

we may add, with its orderly and conservative regulation of competition, is preferable to the waste and demoralization which proceed from the frequently unwise and chaotic efforts of both legislators and insurance companies to manage these affairs. A trust, receiving authority from an act of Congress and held to proper restrictions in the regulation of its affairs, would not, I think, be the worst calamity that could befall either the insurance company or the policy-holder. Such a corporation could, in the exercise of prescribed powers, abolish many abuses and relieve the insuring public from the payment of large sums, which are now necessary on account of the badly regulated manner in which this business is conducted. A trust, with limited powers and subject to congressional control, might be able to force, with a strong hand, an intelligent result, something which has been found impossible because there has been no power to unify action. Trusts created to restrain unreasonable and disastrous competition, as they are frequently able to do, and to give a steadying and conservative impulse to a business which concerns all, may not be regarded as the enemies of society or opposed to the best interests of the public.

Second, that the insurance company is less injured by unfriendly legislation than the policy-holder ; that losses are uniformly paid from income

and not from capital; and that whatever increases disbursements makes an increase of income inevitable. Whatever, therefore, is done to encumber the insurer will unavoidably increase the cost of insurance. Whatever enters into the expense of manufacturing, such as rent, taxes, labor, interest and insurance, increases the cost of the manufactured product; and this same persistent law of economics applies with exactly the same rigor to the business of insurance as to that of manufacturing. Every charge necessary or unnecessary to which it is subject, every burden which it is made to bear, must ultimately be at the cost of those who insure.

A very large item of expense is incurred by the underwriters in procuring business. The best interests of both the insurer and the insured demand that this excessive tax should be reduced; that the vast number of intermediaries that have come to exist between the companies and their patrons should be diminished. There is no greater necessity for procuring business by solicitation in insurance than in banking. It may have been otherwise a half century ago, when the wasteful system was inaugurated, but it is so no longer. In this respect there should be an early departure—one which, while lessening expense, will at the same time add to the dignity and character of underwriting.

The entanglement of fire insurance with unskilled and irresponsible solicitors largely increases each year the volume of losses. The interest of the insurance solicitor is frequently opposed to that of his company; his advantage is often found in withholding instead of disclosing the bad features of the risk. More than one-half of all incendiary fires refer directly to a want of judgment or a want of conscience in taking the risk. Valued policy laws would be found innocuous, if this work was done honestly and intelligently.

Moral hazard created by reckless underwriting adds in losses from \$60,000,000 to \$75,000,000 every year, in the United States, an amount greater than the entire annual output from all the gold mines in this country. This sum must be added to the premium paid for our policies.

It will be found that the rates of the insurance office increase or diminish in exact proportion as its losses and expenses are large or small, for solvency must be maintained and competition will prevent large profits. The business of insurance for the last forty years has not been largely remunerative; the leading companies, those that have survived the great conflagrations, have been able to pay less average profit than capital employed in more conservative enterprises has realized, and when account is taken of the very large number of

companies (more than four times the number of those now existing) that have failed, involving losses of many millions of dollars, it is extremely doubtful whether a single dollar of profit has been realized on the entire business. This is not an encouraging showing, and clearly indicates that there are radical defects in the system of management. While I am of the opinion that a policy of insurance costs too much, it is very clear that there can be no reduction of premium until there is also a reduction of expenses and moral hazard.

This can be done in several ways—first, by dispensing with solicitation and doing the business at the office of the company instead of doing it on the street. In making this important change, which imports the abandonment of a long-established custom, it might be necessary to offer patrons the advantage of a small discount, when the application is made and business is transacted at the agent's office. This, I think, would attract nearly all desirable customers to seek the agent instead of waiting to be sought by the solicitor. The advantage gained by the applicant would be a cheaper insurance and the benefit of having the business attended to by more capable persons, who are the direct and responsible representatives of the insurer. The latter would be relieved of the responsibility and expense of an intermediary, who, while somewhat

increasing the volume of premiums, has done more to degrade the character of underwriting and to create distrust and contention than all other causes combined.

The agent, when relieved from the labor of seeking the business by the methods now employed, would be better remunerated by a commission of 10 per cent. than by the compensation now made. By this change, the insurance company would be relieved of a large number of zealous but unprofitable servants, and thereby be saved an important item of direct expense. They would also be saved from many bad risks and much moral hazard.

The relations of the agent to his company should always be those of confidence, and this can be best secured by recognizing in his compensation the principle of co-operation to the extent of making a portion of his pay for service contingent on the profits of the business done. This proposition I regard as fundamental, and one that cannot be safely ignored in the management of any important business, where responsibilities are distributed. It refers to that which is basic in all business affairs.

Every company that insures on the basis of too high a valuation, or insures unproductive property at all, places a temptation before the owner to become an incendiary. It may be admitted that a majority of persons are so deeply rooted in moral

principle that their conduct will not be consciously influenced by this class of considerations ; the possibility of gain by realizing on their policies will create no motive for criminal action ; but it should be remembered that the best of persons are not wholly unselfish, and when the circumstances affecting their property are such that its destruction will bring them gain instead of loss, they will not ordinarily put forth the same measure of exertion for its protection. Special care and watchfulness are important in respect to all hazards. When this is withdrawn, the chances are greatly increased that the property will burn. When the insurance cancels the personal interest of the owner in the risk, a moral hazard immediately attaches, and when we reflect how often this is done, it should not occasion surprise that fire losses are very large and the rates of premium are in consequence very high. But our prisons, our criminal courts and our police force emphasize the fact that all persons are not honest, and experience has taught us that very many persons do insure for profit and not for protection. Suppose the number of such is not more than one in three hundred of those who insure, and that not more than one-third of the losses are caused by fraud and evil practice—this is certainly a very conservative estimate—and yet the loss sustained by fraud will be enormous.

The waste of physical wealth, although it may amount to \$75,000,000 each year in the United States alone, is unimportant compared with the moral and social debauchery produced, when such waste is the result of fraud. Many persons have moral force sufficient to enable them to overcome all ordinary temptations ; if this were not so, our civilization would rest upon an unsatisfactory foundation ; but there are others, and I need not tell you that the number is very large, who are not stalwarts in anything ; they do not buttress society with their strong wills and an inflexible purpose to do right though the heavens fall. They are not necessarily vicious persons, and without temptation are most frequently fairly good citizens. Under favorable environments their characters crystallize into forms of usefulness ; but in the unstable and formative periods are easily influenced into downward courses.

To persons of this class, the revelation that they can dispose of an undesirable property to the insurer at a profit will always be a temptation to do wrong, to enter upon criminal courses and in the end to become the recognized enemies of society. It is easy to understand the specious reasoning that will lead such persons to take the first step in a life of crime. There is something even plausible about it, and it may often be convincing to one

whose moral philosophy has weak or broken links, whose ideas of right and wrong have not distinctness and rigor, whose character is not firmly based upon the rock of Eternal Justice. The tempted may think of himself as a poor man and pressed in his affairs, which may often be true, and he may think of the insurance company as being rich ; that the benefits to him are comparatively large and the injury to the insurer comparatively small, and then he may think, too, what matters it whether the fire is by accident or design, that the loss to the insurer will be no greater in one case than in the other. There is no door through which one may pass from virtue to vice with a better satisfied feeling, and that such is the case makes the seduction the more dangerous. When conscience once abdicates its throne by consenting to wrong, its influence over the soul is forever gone.

Arson is a very grave crime, and he who has committed it, we may understand, will ever after remain an unsafe member of society. Between him and a criminal life the fences are broken down, and thenceforth he will be a proper subject for the surveillance of the civil authorities. "Lead us not into temptation" was the prayer of the Divine Nazarene. The utterance of this petition emphasizes the obligations with which we are charged, in this respect, to the performance of our business and

social duties. No one can be held guiltless who knowingly causes his fellow to be less honest and less faithful as a citizen than he otherwise would have been. Notwithstanding the strong protecting arm of the insurance company, notwithstanding the timely aid it has brought and is still bringing to hundreds of thousands who are crushed with unexpected misfortunes, notwithstanding the confidence and stability it has given to commerce, the strength with which it has uplifted the fallen and the fidelity with which its many vast obligations have been performed, it must be regarded as a curse instead of a blessing if its methods are such as to increase crime and lower the tone of public morality. That this evil exists and has reached alarming proportions, no intelligent person who is familiar with the adjustment of loss claims will dispute, and the remedy is not difficult to find. The local agent is the cornerstone of the insurance business ; he is the source of all premium income. He selects the company's risks, determines the amount to be written, and fixes the terms of the contract. When this is done with skill and good faith, the company will be protected and there will be no "moralities shrieking aloud." The agent must not only be conscientious in discharging his duties, but he must also be well informed. He should be familiar with values and understand the moral character and business habits

of his patrons. When this is not possible, the venture should in all cases be refused.

Many agents are fully qualified to perform the duties to which they are appointed ; their discrimination in the choice of risks is made with judgment and with a high sense of business honor. It is the service of this class of agents that saves the business from utter disrepute and demoralization.

It is with another and distinctly different class of agents that the principal difficulty is experienced. They are destitute of many qualifications, moral and intellectual, which are essential to success. They fail to understand the important distinctions between that which is good and that which is bad, both in respect to the character of the applicant and of the property they insure. These agents engage in the insurance business with no ambitious ideals ; their judgment of a risk will be influenced by the profit it will bring them. The worse the risk and the larger the line, the greater will be the commission. No property to them is uninsurable, when the owner can pay a premium. It is in agencies of this kind, where the moral hazard is disregarded, that incendiarism is invited, encouraged and developed. It is here that underwriting is brought into discredit and that an exasperated public sentiment is formed that finds hostile expression in legislation and in the judgments of the Courts.

Some years ago a request came to me from a prosecuting attorney, living in one of the Middle States, that I confer with him immediately concerning a gang of incendiaries that he had by some means uncovered. I found in his possession two affidavits, disclosing the names of many scoundrels, with a carefully prepared statement of their operations during the several years of their confederated existence. In this list of rascals were the names of several church members, one banker, one wholesale merchant, and several insurance agents. This business had been carried on in some five or six different States, and had resulted in the destruction of property to the value of several hundred thousand dollars and the violent death of two persons, one of whom had been murdered to prevent disclosures.

Such systematic schemes of arson and plunder, whether large or small, would not be possible if capable and conscientious persons only were selected to represent companies in their local business. Primarily, of course, the insurance companies are mainly responsible for the conditions here referred to. They should not be content with the service of incompetent and dishonest persons in the management of their local offices, and if no one but the insurance companies was involved in the shame and disastrous consequences, there would be less occasion for the public to discuss the matter, and, it

is probable too, that the evil would soon find correction ; but it is true, as I have before remarked, that losses are paid from premiums, and that rates must be made sufficient to cover losses and expenses, whether or not the losses are legitimate or the expenses reasonable. Every neglect of duty, every mistake in accepting risks and every unnecessary disbursement in the management of the business will ultimately be an increased charge to the policyholder, and that which creates a moral hazard, it must be remembered, is an injustice to persons who do not insure as well as to those who do.

The person who sets his property on fire because it is excessively insured may cause the destruction of buildings and merchandise that are not insured, together with the buildings and merchandise that are. Methods of business that stimulate crime affect detrimentally the entire community. We cannot multiply one class of criminals without adding to the catalogue of all others. The malaria that poisons the blood and enfeebles the system prepares the way for a hundred diseases, differing in type and character. So, too, when the moral forces are subjugated by the perpetration of a particular crime, vice and depravity will manifest itself in many different forms.

The most direct and natural remedy that may be offered by the underwriters is in reforming the

agency system. Many of the companies insuring would doubtless cheerfully co-operate in any practicable scheme that would reduce the expenses and lessen the moral hazard of insurance, but there are many others who have never been governed by prudent counsel, and whose only guide is necessity. Like the freebooters, they are a law unto themselves and the enemies of legitimate business.

No plan of reform can be satisfactory in its operation that does not embrace in its obligations and restrictive provisions every company competing for business. This cannot easily be secured by mutual compact. The only relief then that will be permanent must come by legislation. A policy having the force of law, providing that in the event of a total loss, when fire originates on the premises, the company shall in no event be liable for a sum greater than 80 per cent. of the actual value of the property destroyed, would substantially indemnify, establish a conservative rule, practically eliminate moral hazard, reduce the cost of insurance 40 per cent., protect society from dangerous criminal tendencies and save a vast amount of property burned every year through fraud. No one would be wronged by such a policy; on the contrary, every one would be benefited, even the rogues, for the motive being withdrawn, they would be deterred from perpetrating a crime second only to that of treason and mur-

der. Such a law would undoubtedly be constitutional, as it would clearly come within the police power of the State.

The world has ever held in abhorrence the wreckers who, by false lights, have lured ships to their destruction on shoals and rocks. If manhood and personal integrity are of greater value than ships and merchandise, then is our offense greater than theirs, for we have even incorporated into our laws and made it a detestable part of our system of business to lead men from the honest walks of life, by perpetually placing before them a temptation to the commission of crime.

But few persons, not connected with the settlement of loss claims, have such means of information as will enable them to realize the extent of incendiarism, particularly in the middle, southern and western States. There is no other crime of such atrocity so easily perpetrated, and none that offers a richer or more certain reward. The agencies for burning property are so numerous and of such a character as to make detection most frequently impossible. By reason of the often unfriendly character of juries and other obstructions which insurance companies usually encounter in their efforts to convict this class of criminals, they find it more to their advantage to pay the loss and leave the punishment of the incendiary to the civil authorities, and

there the matter generally ends. Probably not one incendiary in fifty is made to suffer for his crime. This immunity, for which both the authorities and the insurance companies must share the responsibilities, has tempted a large number of persons from honest lives into criminal courses.

Organized gangs of this class of criminals, it is well understood, have operated extensively in all the large cities. They have also found a profitable field of activity in the smaller towns and country districts. From these agencies, a vast amount of property has been needlessly destroyed. A policy which would limit the liability of the insurer to 80 per cent. of the sound value of the property destroyed, when the fire originates on the premises, would have the effect to make these criminal ventures unprofitable, and, what is more important, in taking away from those whose moral forces are weak the temptation to do wrong, the business of insurance and the State will be relieved of a scandal, and the better interests of our civilization will be permanently advanced. Persons who are charged with the responsibilities of making and executing the laws, and persons who are charged with the responsibilities of managing vast business interests, should have no narrow visions of duty. To their clients, to their constituents and to all others, whose higher good is involved, they are

bound by the strongest obligations to so act that the social contract shall not be impaired, and that the moralities, which are its beams and braces, shall not be weakened. As men of business affairs, we are here to build up manhood and justice, and not to break them down. There are two classes which can always be relied upon—the good and the bad ; but there is another class, and a very large one, composed of persons who, when called to act, always hesitate between that which is right and that which is wrong.

Large sums are unnecessarily expended every year for field work, both in the inspection of risks and the adjustment of losses. I must not be understood that this work is unimportant :—without frequent and intelligent inspection and eminent skill in the settlement of claims, failure in the conduct of this business would be inevitable ; but it is not economy to employ an army of high-priced men to travel up and down the country, disbursing for railroad fares and hotel bills hundreds of thousands of dollars, when the work they are appointed to do and the information it is their purpose to obtain can be done and procured at a cost not exceeding 10 or 15 per cent. of the sums actually expended.

From the office of the Commissioner of Insurance of the State of Wisconsin, I find that there were one hundred and fifty-three fire insurance com-

panies doing business in Wisconsin during 1897, and I find elsewhere that companies doing a large business employ in that State continually three special agents and adjusters, others employ two and some only one. A comparatively small number, whose business is unimportant, have not found it necessary to keep employed in that field a special agent and adjuster more than one-half of the time.

For the purpose of this illustration, we will suppose that the average employment of each company for inspection and adjustment was only one person, receiving a salary of \$2,500 and traveling expenses, which would amount to \$1,500 more. On these two items alone we have a disbursement of \$612,000, which is equal to 14 per cent. of the total premiums received in Wisconsin during 1897. But this work of inspection and adjustment, as we have said, must be done, and can it be done at a less cost? Undoubtedly; but how? There are several ways. The Factory Association, which is a combination of between twenty and thirty of the leading insurance companies, representing capital to the amount of \$100,000,000, has demonstrated the practicability of procuring a very high character of inspection, of a single class of risks, by simple and direct methods, with a small percentage of cost to each company interested. This system can easily be extended to embrace every class of insurable risks. The person

who surveys mills and factories can also with the same critical judgment survey hotels, stores, warehouses, and in fact every kind of hazard, which companies are accustomed to accept. The twenty-odd companies in the Association may designate to make inspections one competent person, who is an expert in any particular department of the business, instead of each of the several companies sending its own special agent, who in a majority of cases would have less skill and involve to the companies in the aggregate, and to the policy-holder ultimately, a great multiplication of expense.

This plan offers one very satisfactory solution of the inspection and rating problems ; but there is another plan, which differs only in detail and in the fact that it has no co-operative feature, which may be more satisfactory to some of the companies. We have had for a long time our commercial agencies, such as Bradstreet's and Dun's. The merchant, the manufacturer and many other classes of people, whose affairs have important relations to credit, would experience much embarrassment without these auxiliaries of trade. It is an affair of far more difficulty to ascertain the reliable facts concerning a person's financial responsibility than to make a careful inspection of the physical conditions of his property. A system of inspection and rating, conducted in a manner resembling that of these

commercial agencies, would suffice to furnish the insurance manager with the information necessary to an intelligent performance of his duties, at a very small part of the expense now incurred. This bureau of information could collect its facts through the systematic surveys of persons having such special aptitudes and special training as to discover the true character of a hazard and to apply just rules of value and compensation. They should be able to make accurate estimates of the cost of constructing buildings and of computing the insurance value of both internal and external hazards. The rate thus determined would express a logical and mathematical conclusion, one that should be satisfactory to the insured and protective to the insurer.

Every town and city, so far as the underwriter is concerned, has a special character, and every risk is more or less affected by that character. This fact is seldom fully understood by the special agent, whose brief visits relate only to the few risks in which his particular company is interested. The inspector who examines every building from top to bottom will understand many things in regard to both the general and the particular hazard that will be often hidden from the inspector of any single company.

This work, it is obvious, will be done in a more satisfactory manner and at one-tenth the expense

by the "association" or the "bureau of information" than by individual companies. When the rating and inspection are made, they can be printed on sheets and furnished in convenient form for the use of subscribers. More special and confidential reports could be had "on application to the office," such as the moral and business character of the persons who own the property.

For several years a number of the largest companies have classified their risks, in view of ascertaining with greater precision on which the profit or loss is made. Supplementing a uniform and intelligent inspection or survey, these classifications afford the only accurate and scientific basis for the rate which each risk should bear. The data secured in this manner by a large number of companies, during a series of years, will have an important value only in the hands of persons who are expert and competent to deal with the nebulosities of insurance. The agent, no matter how intelligent he may be, if his experience is limited to a single locality, will seldom be able to apply this concrete knowledge in such a manner as to produce definite and available results. We should have for our guidance in the conduct of this business a scientific and systematic classification of the facts which our concrete experience has developed. Without this, we shall profit nothing by the lessons we have learned.

In towns and cities there are frequently many agents, some of whom are good, others indifferent. There will always be found those who are ambitious to thoroughly understand their business. These, in most cases, will succeed in mastering the complicated problems presented; but when agents are called to consider as a board the matter of rating, there will be found conflicting interests. The wise and the level-headed will be opposed by the foolish and those having personal objects to promote, and instead of an intelligent, just and scientific rating, we shall find a patchwork of inanities and fraud. Upright and capable agents there are many; these are deserving of our highest respect and protection, and, it will be agreed, are entitled to pursue their business without being entangled and inter-related with an irresponsible mob, who have no conceptions of duties, the performance of which is likely to affect prejudicially their personal interests.

The law in Wisconsin, giving local boards exclusive authority to fix rates of insurance, is unwise, impolitic and unjust. It ignores the experience of those who bear the chief responsibilities of the insurance business; it treats as nugatory the careful and laborious efforts to compile data through numerous classifications and an accurate account of premiums received and losses paid on different classes, comprising hundreds of thousands of risks

for a term of many years, evolving by mathematical processes a rate that should be just to all. It puts inexperience on the same basis with experience ; it puts the owner of property often in the hands of an unscrupulous majority.

For illustration, let us suppose, at Rock Falls, Brown was the only agent ; that he represented a large number of responsible companies ; that he was a person of superior intelligence and had conducted his business with so much care as to give unqualified satisfaction to all. After years of diligence, Mr. Brown finds himself in the control of a comfortable business, and begins to dream of days when his toils will be lessened and his joys increased. At this moment there arrive in Rock Falls two strangers, Mr. Getem and Mr. Pickem, and they bring with them the agencies of several companies of that kind which people generally prefer not to insure with. They immediately interest themselves in the organization of a local board. This done, they call on the property owners and inform them that their buildings and merchandise must be insured through their office ; that the two agencies of Getem and Pickem constitute a majority of the local board ; that the power of rating is in their hands absolutely, and will be exercised for the benefit of their patrons. Now, here is a hold-up as atrocious as any that ever occurred outside of the

City Council of Chicago. Mr. Brown, being in the minority, can do nothing to protect his clients; he is helpless, and in a few months the business he has established by his intelligence and industry will pass into the hands of the robbers, who have selected him for a victim.

It is possible for an outrage of this kind to occur in every town and city of Wisconsin. Those who have may be plundered by those who have not, and the immolating agency is the legislative power of the State. Through the juggling which this plan of rating invites, the worst risks are liable to find favor with the majority of the local board, on account of the larger amount of commissions involved, and thereby obtain the benefit of lower rates than are demanded for the best class of hazards. The effect of legislative interference in this matter has been to practically exclude from rating that which is the basis of the whole undertaking—every fact of experience, every conclusion that has been reached with scientific accuracy. It places this important matter in the hands of those less skilled, whose interests, instead of whose duty, are liable to influence their judgment and determine their action. An important business is encumbered with incompetency and fraud, honest persons are wronged, and the rogues only find their advantage.

Reference has already been made to the fact that

the business of insurance has not been largely remunerative ; that premiums have barely paid losses, while dividends have chiefly been paid from interest account and the profits derived from investments. Competition has always been active, and, presumably, will continue so. There are too many companies in the field seeking patronage to make an oppressive monopoly possible, but should unwise legislation so encumber the management of this business as to discourage ventures and cause a large amount of capital to be withdrawn, monopoly would become possible and obstructive legislation become the direct cause of that which it was intended to prevent.

The retirement of a company is of frequent occurrence. This it may do when the outlook is discouraging, and this it sometimes must do to protect its capital. Unlike railroads, and even large manufacturing establishments, which have millions permanently invested in plants, the insurance company which fails to win success may re-insure its risks, close its doors and be speedily swallowed up in oblivion. Whether there be many or few companies will be determined always by the law of supply and demand. If the number of companies is too few to afford the required amount of indemnity, rates of premium will advance, for companies will not extend their lines beyond a conservative

limit unless they are tempted to do so by a large premium. This business, like all others, is subject to inexorable law, and it does not require any vast amount of astuteness to find out what that law is. Capital always seeks two things—profit and security. It will venture to insure when one or both of these things are in sight ; when they disappear, it will close its venture and invest elsewhere. That which restricts the insurer as to the most intelligent and practical methods of managing its business, that which imposes unnecessary and unreasonable burdens, that which causes the destruction of property, by creating moral hazard, will just as certainly, as effect follows cause, enhance the cost of insurance. If the valued policy law in any particular State increases the number of fires, that State suffers a double loss, the waste on account of the fire and the additional premium made necessary to reimburse the insurer. The insurance company is in no sense a partner in this folly ; it stands to the public as their man of business, who pays what the law directs and draws on the parties in interest for its commissions and disbursements. This cannot be otherwise where there is left to the insurer the ultimate right to determine the rate on which it will issue its policy. But it is not right that honest people, when procuring insurance, should be taxed to pay the losses occasioned by the fraud of others ;

but it is so, and the remedy is in withdrawing the motive for the perpetration of this class of offenses.

The evils that threaten this business are not obscure, and the responsibility of finding a remedy rests primarily upon those charged with its management. There is a nearness of cause and effect that leaves no room for doubt or evasion ; there may be other causes farther away and less clearly defined. These do not so much concern us. The whooping cough and the measles in the home of a neighbor are more to be apprehended, as menacing the health of our families, than the cholera on the distant Ganges.

The greater part of man's education is obtained while engaged in business pursuits. In the schools the young are instructed in the rudiments of learning, but the greater knowledge comes and characters are chiefly formed in the experience and competitions of life. It is the affairs in which persons are continually engaged, that employ their moral and mental energies, that the aptitudes for virtue or vice are formed. When, therefore, great enterprises are so conducted and legislation is so framed as to cause persons to be less upright than otherwise they would be, an irreparable injury is done to society, and the moral forces, which it is the purpose of the schools and the churches to create, will be broken down and dissipated. There can be

no necessity underlying any business or any law that is so imperative in its character as to justify a departure from that which is fundamentally right. It is a matter of the highest importance that in the performance of our business obligations, absolute integrity should be preserved.

FIRE INSURANCE RATES.

A. F. DEAN :

IT is an open secret that few people actively engaged in fire insurance have more than a superficial acquaintance with practical rating. In the division of labor made necessary by the constant expansion and growing complications of the business, the function of rate making has gradually fallen into the hands of specialists who devote their lives to this work, just as others devote their entire time to inspections, adjustments, and other matters which demand specialized knowledge. Outside the ranks of those who follow fire insurance as a vocation, it would be hard to find a person who had given the subject sufficient thought to even inquire why fire insurance is eternally at sixes and sevens with the public over the rate question, or who had the slightest idea that there is any essential difference between fire rates and the rates of other branches of the indemnity family ; but there is a dif-

ference, vast and far-reaching in its effects, and it is this :

Fire insurance alone attempts to measure the hazard of each individual risk and fit it with a specific rate. In life insurance, for example, a standard life of a given age pays the same rate as a million other similar lives. Each life is merged with its class, loses its identity and quality, and becomes simply a quantitative abstraction. Fire insurance cannot do business in this wholesale manner. It is the retailer of the insurance world. It deals in broken packages and it must test, gauge, weigh, measure, estimate and name specific value in each of its transactions. It is this necessity for individuation which brings us in contact with the bargain counter instinct of the masses ; which loads upon our backs the burden of endless detail from which other branches of insurance are free. It is, in fine, this necessity for individuation that creates all the trouble between the companies and the public and brings me before you to discuss fire rates.

Admitting the radical, perhaps unavoidable difference between fire rates and the rates of other branches of insurance, it is in order to inquire what are the ingredients in a fire rate ; how are they ascertained, combined and measured in dollars and cents.

Physicists account for the infinite diversity of nature by the theory that every cause produces more than one effect. The fire rate reverses this cosmic law, being the condensed effect of an infinitude of causes. Like the *pot au feu* of the thrifty French housewife, in which is thrown every scrap of vegetable, fish, flesh and fowl that contains a trace of nutriment, the fire rate is our pot on the fire, into which necessity compels us to dump every scrap of cause that contains the remotest trace of a possible effect on the hazard. Each of the numberless substances, natural and artificial, which supply man's needs, has its distinct measure of hazard, either in its fire-generating or fire-resisting qualities; its liability to damage, or its readiness to enter into dangerous chemical conspiracies with other substances. The industrial manipulation or manufacture of these substances creates innumerable mixtures of hazard which are kept in a state of unstable equilibrium by invention and discovery. Every building has its individual character in constructional features, and every building, as well as every substance it contains, may be said to radiate upon everything in its vicinity a share of its own hazard, so that every structure and thing is an incendiary suspect in its relations to every other structure and thing. Municipalities, as well as private enterprise, supply fire-preventive devices

which are not of equal efficiency in any two risks or communities. Heat, cold, drouth, winds, commercial conditions, competition, court decisions, legal enactments, departmental rulings, politics, and that all-pervading attribute of human nature, popularly known as "general cussedness," all go into the simmering *pot au feu*, from which is ladled the mysterious mishmash, known as the "fire rate," which serves to keep the fire fiend from the door of the people and to feed the family of fire insurance, and above this bubbling caldron of cause and effect broods a malodorous reek known as moral hazard, with outlines felt rather than seen, which defies analysis.

People naturally ask—how can all these lawless elements of hazard be sifted, sorted, arranged and valued? Is it not all a game of chance, a mere bean-bag guessing match, in which we may venture to participate as well as the next man?

Before attempting an answer, let us pause to consider the interests of the stockholder, for he is the real party of the first part—officers, managers, field men and local agents are simply his hired men. There is not a fire insurance stockholder in the United States who could not safely invest the money equivalent of his stock and surplus where it would earn from 4% to 6% per annum. In leaving his money in pledge for the security of the public

against fires, ordinary and extraordinary, a pledge that may be entirely forfeited in a single conflagration, it is but natural to infer that there should be some inducement for the risk incurred.

The net earnings of the stockholder for assuming this risk appear in your annual reports under the head of profits on underwriting, and have averaged during the past seven years 2.16%. This may be called a pretty close shave. In fact, I question whether one could find another commodity sold to the public at so near prime cost as fire indemnity, and it is safe to say that a business that, year after year, skims so close to the margin between profit and loss, is not a game of chance but a business of grand averages. It should be borne in mind that we are dealing with aggregates—with fire insurance as a whole. If we take the companies singly a considerable divergence will be found in their individual experience, for even the slender margin of two and sixteen hundredths per cent. embodies startling potentialities for success or disaster as determined by relative experience, enterprise and good judgment.

The underwriting profit and loss account of the individual companies for the past ten years ending January 1st, 1898, is shown by the following statement which embraces the experience of every American company with assets in excess of \$1,000,-

000 and of all foreign companies that have transacted business for the entire period :

4	companies	from	9%	to	10%	profit.
2	"	"	8%	"	9%	"
1	"	"	6%	"	7%	"
4	"	"	5%	"	6%	"
5	"	"	4%	"	5%	"
5	"	"	3%	"	4%	"
6	"	"	2%	"	3%	"
9	"	"	1%	"	2%	"
7	"	"	0%	"	1%	"
3	"	"	0%	"	1%	loss.
5	"	"	1%	"	2%	"
1	"	"	2%	"	3%	"
1	"	"	3%	"	4%	"
4	"	"	4%	"	5%	"
2	"	"	5%	"	6%	"
1	"	"	7%	"	8%	"

It will be noted that of the entire sixty companies, more than one-half come within the range between 3% profit and 3% loss.

The above figures, however, are the record of the living and not of the dead. During the same ten-year period, considerably over three hundred stock companies, not to mention Mutuals and Lloyds, have passed out of existence.

These figures show that so far as underwriting

profit is concerned, fire insurance has been furnished to the public at as near bed rock cost as any other commodity. It may be added that, notwithstanding the complicated procedure of establishing fire rates as compared with the simple process of ascertaining taxable values, fire insurance as a tax has been assessed with as much equity as any other form of taxation. If we stop to consider State areas and classes of risks, we find a limited range of divergence in loss ratio, as with single companies. Possibly rates might be lowered 10% in Colorado, Illinois, Iowa, Nebraska and South Dakota, but if this were done, self-protection would require a corresponding advance in Kentucky, Missouri, Tennessee and some other States. We might lower rates say 15% in Wyoming and 20% in Oklahoma Ter., but it would be necessary to advance them $33\frac{1}{3}\%$ in North Dakota and Indian Ter. To do this it would be necessary to re-rate every risk in these States and about the time the work was done, a few good-sized fires would come along and make pie of our new rates. Since I began writing this paper a fire at Bismarck has doubled the loss ratio of North Dakota and it is not an uncommon occurrence for a single fire to increase the loss ratio of a State from ten to fifty per cent.

A proper adjustment of rates among classes is the real nub of the rate problem ; for the difference be-

tween classes is actual, while the difference between States with similar climatic and social conditions is largely imaginary. There is no affinity or correspondence whatever between a saw mill and a church, or a tannery and a theatre, or a livery stable and a jewelry store. Classes are physically distinct and independent, and each class must be studied, analyzed, grouped, and its experience over wide areas and for long periods codified before its rates can be intelligently determined. It is not generally known that many important classes have for years been carried by the fire companies at a loss. It is difficult to obtain the exact experience of individual companies by classes, for this information is jealously guarded by each company, but there is hardly room to doubt that at least one class in three is insured at a loss to the companies. Every dollar in premiums received on these classes has cost the companies from one dollar to a dollar and fifty cents, and in point of unprofitableness, farm property is easily first. It is one of the many paradoxes of our business that the farmers, who have been the unrelenting foes of fire insurance, and who have voted solidly for all legislation inimical to its interests, have for many years received about one dollar and fifty cents for each dollar they have paid for fire indemnity. Despite the fact that in many Western States farm rates are now nearly double

what they were fifteen years ago, very few leading general agency companies are at the present time willing to insure farm property at any rate, and with the present cost ratio of \$1.50, it is safe to say that rates must continue to advance. Farm property, as a class, has always been free from the control of boards, compacts and rating organizations of every kind, and in the light of experience it is hard to resist the conclusion that when the farmers learn what is the matter they will realize that they are suffering for the beneficent protection of that imaginary monster known as "the great fire insurance octopus."

As to classes, however, as well as companies and States, it is proper to say that, with the exception of perhaps farm business, the range of deviation between the extremes of profit and loss narrows in direct proportion to the volume of premiums. The greater the State, the larger the company, or the more important the class, the nearer, as a rule, its experience approximates the dividing line between profit and loss. The widest range, as a rule, is found with minor companies, minor States and minor classes whose volume of premiums is so small that the loss ratio is materially changed by ordinary conflagrations. It would perhaps be safe to state broadly that the experience of every important company, state or class, comes within ten

per cent. of the mean line established by the average underwriting profit of all companies, and in this fact there is more room for astonishment than complaint. If you ask how this has been accomplished, I can only surmise that it has come through the indirect, perhaps unconscious application of that species of universal solvent known as classification.

Every leading company maintains a tabulation of its experience, in which every risk is classified and each class charged with its losses and credited with its income. Some of these tabulations extend back for half a century and contain information of inestimable value to the individual companies. The schedules, from which local tariffs are made, are the result of conference and are based upon these tabulations. These conferences bear fruit in basis rates, which indicate in a general way the result of combined experience, modified by mutual concessions within the range of individual experience.

I need not explain how an elaborate and complicated system of basis rates, with established charges and credits for the thousand and one things which constitute the fire hazard, has grown up from united experience and consultation, nor how, from these basis rates, have been evolved thousands of local tariffs, nor how the incessant

changes in hazard necessitate constant reinspection and revision, eternal vigilance, ceaseless work and endless expense. With all this colossal work, there has been no time when a majority of companies have not refused to share in the labor and expense. These companies have used the tariffs without acknowledgment, obligation or expense as a source of information to determine what concession in rate or commission might be necessary to secure the most desirable business, and some of these companies have spared no effort to foment public prejudice against the companies whose labors they have appropriated. The prevalent impression that fire rates are established by a great and remorseless trust, is largely due to these companies, whose very existence proves the falsity of the charge.

For many years there has been a growing belief in the necessity for uniform classifications and systematic compilations of the combined experience of the companies as the basis from which to determine with greater exactness the relative cost among classes. Repeated attempts have been made to induce the companies to furnish their tabulated experience for the common good. It would seem at first thought that only a narrow and selfish policy could prevent a company from co-operating in a work so essential to the common weal ; but when

we consider that these company statistics embody trade secrets which have dominated the policy of each company and contributed to its prosperity, it may well be imagined that there would be strong grounds for hesitation before delivering this information into the hands of business rivals. The necessity for a wider horizon in fire underwriting is the only personal inducement there could be for a company to reveal its trade secrets to its less prosperous rivals, though from the broader standpoint of the common welfare, enlightened underwriters generally admit the desirability of more exact methods in their dealings with classes. In this connection there is a collateral feature of classification interesting in its relations, not only to the rate problem but to the question of fire reserves which has perplexed you in your official capacity for so many years.

It is a well-known fact that fire rates are never at rest. Constant fluctuation is perhaps a permanent necessity—it is at least unavoidable under present rating methods. A comparison of losses with premiums derived from fluctuating rates is a comparison of a fixed quantity with a varying quantity. Were it possible to compare annual class losses with the average cost to companies during long periods, the comparison would exhibit true ratios and establish the relative cost of each

class as a basis from which to formulate State and local schedules of cost, instead of tariffs of rates, as in the past.

The practical application of combined classification seems to make this mode of procedure a necessity and in this necessity lies, as I believe, the solution of not only some knotty points in the rate problem, but of the question of reinsurance reserves. On the companies' side, it clears away the perplexities which have arisen from the inertia of existing rates. Few people appreciate the delays and enormous difficulties involved in the systematic re-rating of every risk throughout an extended territory—say a State. Local tariffs will not admit of percentage class modifications and this defect is the source of constant trouble and misunderstanding between the companies and the public.

A State, for example, has had a protracted period of immunity from fires while another State has had exceptionally heavy losses. Rates cannot be altered without great delay and the expense of an itemized re-rating of every risk in both States. Meanwhile, matters drift along, the one State helping to pay for the losses of the other. The same difficulty occurs with classes. One class develops and maintains a material increase in hazard; another class the reverse. There is no way to meet

the change except to re-rate every risk of both classes, not only in one State but throughout the entire country, which, like the task of bringing up the heavy artillery over muddy roads, is a slow and expensive job. The companies are unjustly charged with an indisposition to lower rates under any circumstances, because they cannot accomplish the impossible. Demoralization and rate cutting ensue and legitimate insurance suffers the loss of good business and good will. No one appreciates this doughlike absence of resiliency in our present tariffs better than the companies themselves. If the result of classification is to create tables of cost instead of rate tariffs, rates will establish themselves just as selling prices are established in the dry goods and hardware trade. The rates of each State will become an exact reflection of its loss ratio and necessary changes in rates may occur without disturbing the reliability of tabulated experience. The public would ultimately learn that the spirit of mutuality pervaded the system; that an increase in losses meant higher rates, and that the responsibility was with them and not with the companies. People would soon come to regard a rate-cutting company with the same feeling of distrust they feel for a bank that offers too much interest for deposits. An unchanging basis of fire cost with reasonable percentage additions for trade

profit seems to be the unavoidable outcome of applied classification. A rating system established upon this basis would place fire insurance in line with other mercantile pursuits. It would, in a measure, give to the business the stability of banking. It would offer a degree of safety to capital justifying moderate profits. Close underwriting discrimination, and economy of management would largely supplant the element of luck. Last but not least it would establish a basis—in fact the only accurate basis from which to determine the proper reserve for each company. A change of this magnitude and importance is not to be accomplished in a day ; it must come as the result of ceaseless agitation and labor on the part of those who mould insurance thought.

I have attempted to describe this growing sentiment to you as being in my judgment one of the most significant indications in the evolution of fire insurance. In your official capacity you have it in your power to lend efficient aid and the best aid you can give will be to use your influence to induce the legislatures to keep their hands off and let Dame Nature have her way as she is sure to do in the end. This brings me at last to the relation of the States to the rate question.

In eight Western States the fire companies are forbidden by law to confer together on the subject

of rates. In some of these States the State companies are excepted, in others local agents are permitted to make our rates. In every business of barter and sale it is considered necessary before marking the selling price on a piece of goods to examine the bill of purchase and find its cost. This sensible procedure seems to be as innocuous and necessary with us as with the grocer and dry goods man, but unfortunately our bills of purchase are complicated and tangled up with the purchase invoices of our neighbors and we cannot find the cost of the risks we sell with the ease and certainty with which a grocer finds the cost of a ham or codfish.

I have tried to show the devious and complicated processes through which we establish the relative cost of our wares and I trust I have been able to demonstrate that no single company has or can possibly obtain the information necessary to determine the cost of the goods it sells. Conference is an absolute necessity and the more people who join in the conference the nearer they can get to the exact truth.

Admitting that we are expected to sell our goods without profit, that capital is beneficent enough to supply this country with fire indemnity at cost, your official figures show that we have come within 2.16% of the truth ; but this is the truth as to the whole and only an approximation as to its parts.

There is room for a closer approximation as to classes and when class rates have been equalized, State rates will adjust themselves as a necessary sequence. In this, the companies and the public have a perfect community of interest and all are seeking the same end though in vastly different and conflicting ways. No fair-minded citizen desires that the school-house class shall be mulcted to pay the premiums of planing mills or ice houses, or that dwellings or churches shall contribute to pay the premiums of wholesale lumber yards, tanneries or distilleries. The companies are as anxious to stop this sort of injustice as the people. But to remedy this, companies must have the constitutional right conferred on every citizen of free mutual conference. Without this right, individual companies, one and all, are helpless. Even were it possible for a single company to ascertain from its own limited experience the proper cost of its wares, this cost would not be the cost of the specific risk but the cost of the class to which it belongs. To find the cost of the specific risk, it would be necessary for each company to send a rating expert from one hundred to a thousand miles to make a personal examination of its character and environments. Let us say that a company writes 100,000 risks per annum—an average of 300 risks per day. If it were a physical possibility to send a compe-

tent man to examine each of these risks and establish its rate, the travelling expenses would eat up the company's capital in six months. A hundred other companies would have to repeat precisely the same work one hundred times over and, incredible as it may seem, legislators expect that this sort of thing will cheapen rates. The fact is that the making of fire rates is a colossal work—a work that transcends the capacity of individual enterprise. Like fire departments, water works, public school systems and Panama Canals, it is an undertaking that can only be accomplished by united effort. If the public won't let the companies co-operate in making rates the public must eventually take charge of the work itself, and from a long and intimate knowledge of the subject I can most devoutly say : God help the public functionary who has to apportion rates among breweries, theatres, churches, schools, dance halls, distilleries and other natural enemies in our social fabric.

It is not to be presumed that legislators in enacting anti-compact laws have been animated by any other than a desire for the public welfare, and it is an interesting question as to what is the real public welfare in the matter of fire rates. Ostensibly, anti-compact laws are intended to encourage open competition and from a cursory view this would seem to be for the public interest, but to encourage

competition at inadequate rates is to crush out competition in the end and defeat the intention of the anti-compact laws.

The alacrity with which the tidal wave of capital responds to the inconstant moon of loss ratio is a notable phenomenon in the world of fire insurance. The fierce light of publicity which beats about the affairs of fire insurance allows no concealment. Our concerns, to the smallest detail, are promptly published to the world. There is no possibility of hiding abnormal profits from the prying eye of competition. On the other hand, there is no enterprise that capital can so easily abandon as fire insurance. The laws require our assets to be sound and convertible. The process, of either liquidating or looting a fire company, is short and easy, and capital in its cold-blooded way reasons that the dollar which fights and runs away may live to fight another day.

The past five years have furnished an interesting illustration of this tidal law. The heavy losses of 1892-3-4 were followed by the retirement of about two hundred competing organizations—stock, mutual and lloyds. The low loss ratio and high rates in 1896-7 caused a reflect wave of competition which washed onto our shores a large number of foreign organizations and the past year has been remarkably prolific in hatching out new American companies of foreign parentage, though it is but fair to

say that most of the new organizations are connected with, and nourished from the management expenses of their parent organizations, being either corporate fictions or the result of new competitive methods rather than independent organizations created to compete for business on their own merits and responsibility. Perhaps it would not be necessary to mention this but for the fact that it shows that the ebb tide is stronger than the flood tide ; that the transaction of our business has been made so uncomfortable, if not dangerous, by the exacting laws of forty odd States that home capital at least, flows out more freely than it flows in, and that recent accretions of capital do not increase the number of competing organizations, because they are concentrated under the management of established companies. Be this as it may, the phenomenon of inflow and outflow of capital in response to fluctuations in the loss ratio is unmistakable and the question is—What have the States to gain by forbidding fire insurance to establish rates upon its average experience when these rates are automatically regulated by the natural law of supply and demand ? True, they are regulated by great tidal rate waves that swamp most of the small craft, and from a common sense standpoint it would seem that public interests might be better conserved by steady equitable rates derived from continental averages.

It has been a full generation since we have had a national rate war, and the probabilities of another are about as uncertain as the possibilities of a general European war. The great underwriting institutions have too profound a respect for each other's financial armaments, and too much regard for their own *bien-être* to relish a general contest that would bring ruin to all. The rate wars which claim consideration are those confined to individual risks or to local or State areas. Local rate wars are perennial. There is no time when they are not raging in a score of places throughout the country. They are, as a rule, the result of unfair practices or personal antagonism on the part of local agents, which can only be allayed by allowing them to fight out their differences to a finish. Occasionally a rate war breaks out over a considerable area, as in the recent protracted contest on the Pacific Coast. Let us inquire whether it is *pro bono publico* to encourage this sort of thing.

I leave it to you who represent States east of the Rocky Mountains, to judge of the material benefits your constituents received from the fact that the bag which holds the fire indemnity of the American people came untied and showered out, say a million dollars, upon the people of the Pacific Coast. It is true, this shower seemed to be a godsend to the people of the Pacific Coast who happened to be at the

right end of the cornucopia, but was it an unmixed blessing? It is to be feared not. Few realize how fire insurance, by its inspections and safeguards, protects people from each other. A rate war abolishes all requirements and puts a stop to improvements which are no longer recognized in the rate. Everything goes—gasoline, explosives, defective flues, rubbish and dangerous heating and lighting arrangements. Every man has *carte blanche* to endanger his own and his neighbor's property. A wide open policy supplants sound underwriting practices, difficult to re-establish. It will be many years before the normal loss ratio of the people of the Pacific Coast will be restored, and in the end they will probably come out at the wrong end of the horn of plenty, which has been treating them so prodigally of late.

Last summer a short, sharp and decisive engagement occurred in the capital of this State; within twenty-four hours nearly every outstanding policy was taken up, the premiums refunded and new policies issued for three to five years for a nominal consideration. The good people of Madison, Wis., are still hugging themselves because for some years to come they will enjoy the benefits of free insurance; but are the people of Milwaukee, Oshkosh and other towns of this State hugging themselves? Was there any result from this insane fight that

should cause the commonwealth of Wisconsin to felicitate itself?

At the present time fire insurance, like salvation, is free to the Astors, Vanderbilts, Goulds and other rich but more or less honest people of Gotham. Their twenty-nine-story sky scrapers are being insured for five years at less than one cent on the one hundred dollars per annum. A thousand dollar fire policy is costing much less this summer in Manhattan than a Manhattan cocktail. Are the sixty odd million people outside of New York City benefited by this incredible discrimination? Is society benefited when a tramp steals a ride in an empty freight car, or a tax dodger escapes the assessor? The law frowns upon railroad dead-heads; why should it smile upon insurance dead-heads?

What may be said of fire insurance rate wars, may be said with equal truth of the rate cutting of individual risks, or of any other deviation from tariffs established with the fundamental idea of impartiality. All these things discriminate in favor of one person or one community at the expense of other persons or other communities. They are not democratic. They are unjust. Fire insurance is a tax and the law should not encourage its tax dodgers. The State, if it has any duty in the matter, owes this duty to the public at large and not to

a few favored individuals or communities. If the State has any concern in fire rates, it is to see that they are fairly distributed as to States, municipalities, individual risks and classes of risks.

In considering the question of an equable distribution among States, the first question that arises is, whether each State should stand upon its own bottom or share with other States in the average loss ratio derived from long periods of time over the entire country. A study of the annual loss ratio of the individual States shows in many States enormous fluctuations. For instance, Illinois and Massachusetts for many years have shown low loss ratios with small rate fluctuations. If these States had been assessed upon their loss ratios at the time of the Chicago and Boston fires, it would have been practical confiscation for the people of Illinois and Massachusetts. In the Indian Territory the loss ratio was raised from 35% to 224% by the Ardmore fire; in North Dakota from 44% to 319% by the Fargo fire. In 1892-93 the city of Milwaukee was visited by a series of disastrous fires culminating in a sweeping conflagration which nearly quadrupled the loss ratio of this State. A similar experience occurred at the time of the great Oshkosh conflagration. An advance in rates to correspond with these increases in State loss ratios would have been a public calamity.

The entire annual premiums of some States are not equal to those of many leading cities and yet no one would claim that each city should be compelled to stand upon its own bottom. A city conflagration is a matter of national concern and the great fundamental object of fire insurance, which is to disperse the effects of the shock of every conflagration, great or small, over the widest possible area of space and time, is violated when we confine this shock to city or State areas and short periods of time. Stability in the price of fire indemnity is as much a necessity as stability in the price of any other commodity and there is even greater reason for comity among States in the distribution of the fire loss than there is for comity in other relations. On the other hand, the normal loss ratios of individual States for long periods compared with each other vary widely and their rates must be fixed to correspond. We cannot expect the rates of Texas or North Dakota, for instance, to be as low as the rates of Ohio or Rhode Island. The true relation of the loss ratio of these States in comparison with the national loss ratio can only be determined by comparison during long stretches of time. No State can justly ask for rates based exclusively upon its individual experience without the reciprocal obligation to submit to a corresponding advance in case of the destruction of one of its great prop-

erty centres and it is pertinent to inquire whether any State can afford to mortgage its future for the small amount it could possibly save in premiums.

The question of equity in rates as to classes is no less important than equity as to State areas. How can equable class rates be maintained upon the narrow statistical basis of a single State? For instance, about all the large breweries in Wisconsin are centred in this city. Let us suppose the Pabst brewery should generate a million dollar conflagration. Messrs. Blatz and Schlitz and Miller and Jung would feel it a hardship to have the entire loss assessed on their next year's rate. The owners of dwellings, stores, flouring mills, etc., would feel that they had no personal interest in the brewing industry; the churches would roll up their eyes in pious horror at the mere thought of being assessed to re-build a brewery, and there would probably be a tempest in a tea pot over the question of apportionment of brewery rates.

Similar complications would result in the event of the destruction by fire of the Pfister & Vogel Tannery, the Angus-Smith Elevators, or the E. P. Allis & Company establishment of this city, the Singer Sewing Machine, Studebaker Wagon Works, or De Pauw Plate Glass Works of Indiana, the Illinois Steel Company, Anglo-Swiss Condensed Milk Company, the great glucose works or distilleries of

Peoria, Illinois, or any one of the thousands of other great industrial establishments scattered throughout the length and breadth of the land.

Down in the "Kaw Bottom" in Kansas City, Kansas, in a space no larger than a quarter section of land, are clustered practically all of the packing houses in the State of Kansas, and mammoth establishments they are, embracing many millions in values, all subject to a single conflagration. What would happen if the commonwealth of Kansas should try the experiment of State insurance and all these pork houses should take it into their heads to burn together? Would the horny-handed sons of the soil "out there near to nature's heart" and the sixth principal meridian, go down in their pockets, to make good the loss of the plutocratic packers? Probably not, but admitting that they would, how would packing house rates be figured the next year on the State experience? If not figured on State experience, rates might, it is true (if the people of Kansas were willing to act as bankers and advance the deficit), be figured on United States experience, but this would simply be coming back to present methods, from which there is no alternative except to throw experience to the dogs. All this may seem like a *reductio ad absurdum*, but these are contingences that may not be avoided in the attempt to equalize rates among classes from

the experience of single States, and it is to these puerilities that the anti-compact laws lead us. State companies, as a rule, have a much higher expense ratio than companies transacting business in all States, and they certainly cannot afford to make lower rates on that account. In one Western State where the anti-compact law has been rigidly enforced, there is only one stock company, and its average expense ratio has been nearly 50%. Just how it could establish lower rates on this expense ratio is an interesting question in problematics.

We strike a still worse muddle in States where the rate-making function is taken away from the companies and imposed upon the local agents. Assuming that fair and uniform treatment to communities and individuals in the distribution of the fire tax is essential ; that the public at large can gain nothing from the adoption of Bowery clothing store methods in the sale of fire indemnity, nothing from our charging each customer as much as he will pay, nothing from our taxing Smith more for the same hazard than Jones, or Smithville more than Jonesville, the question is—How is this to be avoided if we are compelled to take the cost mark off our goods and leave the selling price to the guessing abilities and persuasive powers of our salesmen ?

The average local agent is a useful member of the

community, but experience tables and statistical investigation are not in his line, and if they were he could not make bricks without straw. His local experience bears the same relation to grand averages that a geometrical point bears to space. Frequently he reaches a green old age without the opportunity of seeing a fire more serious than a conflagration in a woodshed. His ideas as to the cost of indemnity or the relative hazard of classes are hardly more definite, and far less positive, than those of his customers. His dominant motive is to make a sale under the stress of competition. To throw him upon his own resources in making rates is to make a junk heap of experience and ensure different rates in every town and for every risk.

For his services as a salesman the local agent receives from one-fifth to one-half as much as the company which pays the losses and expenses, and his interest in maintaining rates is in direct proportion to his commissions. The agent who gets thirty per cent. is hurt twice as much by a rate reduction as the agent who gets fifteen per cent. It is a well known fact that every rate reduction during recent years has brought out numerous and vigorous protests from high-commission agents. In many towns local boards have passed resolutions refusing to lower rates and in many more they have threatened to do so.

The results of local agents' ratings in Wisconsin have not been altogether lovely. The rate-making function is attended with some unpleasant responsibilities. It is a mathematical rather than a controversial function, and can be better exercised in the calm seclusion of statistics than in *ex parte* discussions between people equally ignorant of fundamental truths. Sensible agents soon found that the necessity for heated and unprofitable discussions with their patrons could only be avoided by hiring some disinterested expert to relieve them of the responsibility, and most of the rating inspectors who had lost their jobs under the law soon found employment in making rates for local boards.

I have endeavored in a crude way to call your attention to some of the more important features of the rate question in fire insurance. In closing, let me remind you that fire indemnity is not a cornerable product. It is not amenable to trust methods. Genuine fire indemnity is an emanation from capital that fire brings back from its vaporous condition into a solid state, and this emanation can never be bottled into a trust until it is possible to bottle up the world's capital. Fire insurance is not a syndicate, but a community as numerous as our combined land and naval forces, and a community with more than its share of rivalries and

conflicting interests. Capital is Capital's worst enemy ; Capital fears competition worse than it fears hostile legislation. Every well-managed company dreads high rates, which increase reckless competition, more than it dreads low rates which develop economical and respectable methods and crush out unskillful competition. In proof of this let me add that the companies have, during the past two years, voluntarily made large rate reductions throughout the West on some of the most important classes—on tornado rates nearly fifty per cent. ; on retail lumber yard and dwelling rates, twenty-five per cent. ; on brick store buildings and elevators, from ten per cent. to twenty-five per cent. These sweeping reductions were not caused by anti-compact legislation or by public clamor ; they were made to meet the increased competition caused by two or three profitable years, and in this competition which surely follows every profitable period lies the safety of the people, a safety that legislatures cannot make more secure.

In addition to these important reductions in class rates, every improvement in construction or protection, external or internal, is promptly recognized by adequate concessions. A fire department will lower the rate on every risk in a town from 10% to 50% ; an acceptable sprinkler system will reduce a rate all the way from 25% to 75%, according to its

merits. Associations of experts are constantly studying every detail of construction, electrical installation and automatic devices of every kind for preventing or retarding fires, also the hazards of heating, lighting and motive power, as well as the properties of substances and every invention that has within it latent possibilities affecting the fire hazard. This work is done by disinterested men who make physical hazard the study of their lives and who are doing more to educate the public and more to reduce the fire hazard and rate than all the legislative bodies that have sat in conclave since the days of the Athenian areopagus.

No intelligent man can study fire underwriting and for an instant admit the possibility of making the logical, equitable rates the public needs and demands in any other way than through united effort. Fire companies are by nature gregarious. They are thrown together in the same agency ; assume the same risks under identical forms of contract ; they are interdependent in the matter of inspections and in case of loss are compelled to unite in its adjustment, and last, but not least, they cannot make rates intelligently and fairly excepting from the broad and enlightened standpoint of combined experience over decades and continental areas. The companies are drawn together as the atoms of matter are drawn together, and they must



associate in their natural and necessary functions, for it is a law of their being. This Association of State Commissioners is simply an outgrowth of insurance evolution. You, too, are members of the great insurance brotherhood and in meeting together each year you acknowledge by evidence stronger than words the inexorable necessity for conference and united action in the performance of your duties, just as we do in the establishment of rates and other things essential.

There is a popular children's game played as follows : A large picture of a tailless mule is tacked up against the wall of a room. A number of pictures of the mule's tail are distributed among the participants, each of whom in turn is blindfolded with a handkerchief and then whirled around three times to the right and twice to the left. The game consists in the attempt of the blindfolded person to pin a tail to the portion of the mule's anatomy where it belongs and the result is that when the game is over, mule's tails are pinned up in artistic disorder all over the room—from the mule's left ear to the family photograph-album. It is a game full of amusing absurdities and very suggestive of anti-compact laws. The mule stands for the public, with a tendency to kick ; the tail is the rate ; the blindfoldees stand for the companies ; the blindfolders for the politicians, and the handkerchief for anti-

compact legislation. You will doubtless draw your own inferences, but I venture to suggest that a mule's tail is a necessary part of its anatomy and it ought to be in the right place as it helps the looks of the mule and is useful in fly time. A mule without a tail in the right place is more apt to kick than a mule with a normal tail in its normal place and the companies can never find the right place so long as they are blindfolded with legislative handkerchiefs and whirled around by political hoodwinkers until they have lost all sense of distance and direction. As a diversion the mule game is funny, but as business it is and always will be a dismal failure.

J. MABBETT BROWN :

I HAVE listened with great interest and pleasure to the address of Mr. Dean, concurring heartily in all he has said. The advantages to be derived from uniform ratings, made by competent persons, whether representatives of local boards, associations or compacts—they may be called by whatever title you please, and still not be “a trust,” as generally termed by the community at large—are unquestionably beneficial to all parties in interest.

If all reliable fire insurance companies could or

would agree to associate together, binding themselves, if need be, under heavy bonds to adhere to such certain rules and rates as they may agree upon, the rates to be based upon a schedule made up from the combined experience of companies that have carefully classified their business for a term of years, say at least twenty, would in my opinion, after a reasonable trial, experience such an improvement in their business and find such good results that you could not drive one of them out of the association. Such association would not and virtually could not be "a trust," for it is a safe proposition to assume that for the sake of self-preservation, the rate-making would be placed in the hands of competent and experienced fire insurance men, with instructions to make the rates in accordance with the hazard of the risk, as so classified, and not higher than was necessary to give a fair margin for profit on the capital invested in the business for the policy-holders' protection.

Such conservative action on the part of the associated companies would have a tendency to prevent the growth, encouragement and increase of irresponsible fire insurance companies for the time being, claiming to be benefactors to the business community, necessarily having a brief existence and soon winding up their career in the hands

of a receiver. Such companies would not be able to obtain reinsurance in any of the associated companies. Thus they would soon show themselves to be incompetent and inexperienced in the business, and to be losing instead of making money for their stockholders. If the insuring public of each State would demand that the laws that attempt to prohibit the so-called compacts and associations of fire insurance companies be wiped out of existence and as much liberality shown towards fire insurance companies as is shown to life insurance companies they would quickly realize that it was greatly to their interests.

Fire insurance is the sole protection in case of disaster by fire of the entire mercantile and manufacturing capital of this and all other civilized countries. The reliable and sound company should be fostered and encouraged by public opinion and sensible laws, not treated as an alien and an enemy. Why should such an immense business as fire insurance be the only one that is hampered with obnoxious laws and loaded with excessive taxation? All of which has a tendency to increase rates, and such increase must eventually come out of the pockets of the insured. So with the valued policy law, not only does it increase the cost of insurance by its temptation for dishonesty, but has a demoralizing effect upon the morals of the people

by its tendency to induce them to put a fictitious value upon property when insuring, and then by means of gross carelessness, if nothing worse, selling it to the underwriters under the provisions of such pernicious statutes.

An honorable "trust," as it is called, never took advantage of any community; they are nearly always found to be of benefit from the fact that they manufacture superior grades of goods at minimum cost and furnish them to the people at a much less price than they could possibly obtain them but for this combination of capital. So it would be with insurance compacts and ratings, were the companies not hampered with laws and burdened by taxes that no other equally large interests suffer from. Success in business and release from onerous taxation and laws that lead indirectly to fraud and arson, would of a necessity make rates lower and the insurer reap a benefit. The State would also be benefited as it would collect thousands of dollars in taxes upon the premiums received by the associated companies, which they now lose on account of premiums going out of their domain into the hands of mutuals, Lloyd's and other unauthorized companies and associations which can not and will not comply with the law, as is alleged for the protection of insurers, but which are really inimical to their best interests. Such companies are

not only law breakers, but they invite and encourage the citizens of the various States to become not only law breakers, but tax evaders as well.

To illustrate the difference in the treatment by our legislators of fire insurance capital and that of other large institutions.

In this city we have many mammoth industries ; from them I select only two—the tanneries and breweries. Their aggregate sales in 1897 were \$26,000,000 ; the brewers leading with \$14,000,000, and the tanners a close second with \$12,000,000. These interests are in the hands of very wealthy men, who would still have large fortunes left even if their plants were uninsured and entirely destroyed by fire ; but they insure their property up to ninety per cent. of its value, make money and constantly increase their manufacturing facilities, but they do not take advantage of those with whom they do business, even if they do have their own associations for mutual protection. They are not taxed in the same proportion as are insurance companies, and we hear nothing about their being a “trust” or “compact.”

A compact or association of fire insurance companies, for the maintenance of fair and equitable rates in accordance with the hazard, under a justly discriminating schedule, if it were not prohibited by the law of the State, would be of as much ben-

effit to the mass of citizens of the United States as the much berated "Standard Oil Company" has proved itself to be in furnishing its products at much less figures than they paid previous to its formation and phenomenal business success. Why that success? Simply for the reason that it takes no advantage of its patrons, but keeps prices so low that there can be no competition. Such would be the case in the association of the reliable and responsible insurance companies for the making of equitable rates. Self-interest would compel them to fix them at such a figure as would keep out of the business the wildcat affairs that take the premiums from their victims and fail to pay the losses incurred.

"Insurance compacts," boards of underwriters, are not formed simply for the making of rates, but take a much wider scope. They are in a great measure a protection to property and life, their superintendents and inspectors discover any attempt at the storage of large quantities of dangerous and explosive materials within the limits of towns and cities under their jurisdiction, which, although it may be prohibited by city, town or village ordinances, will frequently be found just where at any time, should a fire occur, a serious loss of life and property and the maiming of many persons might take place. They see to it that the

ordinances are enforced, and if there be no such ordinance that they be enacted and obeyed. So too, with building ordinances and others intended for the protection of the public from the disasters by fire.

Within the past year there have been found in this city hundreds of places where from fifty to one hundred gallons of gasoline were stored, with families living immediately over such magazines of destruction. What was the remedy? Not the city ordinance, because the violation of such is not learned until the insurance companies, board manager or inspector discovers the danger, warns the delinquent, notifies the proper authorities to enforce the law, and, until the evil is removed, makes such a rating for the hazard as will cause the owner of the building to demand a correction of the evil for his own protection, a penalty which the compact manager may apply according to his judgment.

Instead of anti-compact laws and laws prohibiting the forming of local boards, there should be laws protecting such associations, possibly with some proper restrictions.

If such could be, rates would be lower, the destruction of property by fire lessened, millions of dollars worth of property saved that is now burned and can never be replaced, for the property is wasted, although the person or persons be insured

and thus saved from financial embarrassment or ruin. Who is it that objects to companies forming associations—compacts, if you choose to call them such—for the mutual benefit of insurer and insured, the making of a fair and equitable rate, and the enforcement of good underwriting practices? Is it the liberal, enterprising merchant, manufacturer or capitalist? No, it is as a rule the narrow, contracted-minded man who knows nothing of insurance and probably but little else outside of his own business, and who is largely governed by his prejudices, whose cry is “the insurance companies are making too much money;” “we have not had any fires of importance for years;” “rates should come down;” “we should not be taxed to pay losses in other parts of the country;” “we should be rated solely on the merits of our own locality.”

Were this fellow asked the question: “If a fire were to occur causing a loss to insurance companies many times the amount your city or town has paid in premiums, would you be willing on the rebuilding of the burned territory to pay an increased rate sufficient to reimburse the companies for their loss in this locality within a reasonable time?” The reply you can readily imagine. That would be “a horse of another color,” and he would pronounce such a demand as outrageous.

Compact ratings equalize and adjust the cost of

insurance, placing each risk on its own merits. It wrongs no one. It is a benefit to the owner of well-built and well-cared-for buildings and an inducement to those which are poorly constructed and badly cared for to improve them in both respects, thus benefiting himself as well as his neighbors whose property is exposed by his poorer risk.

The rate which is made haphazard by one not familiar with the various hazards that affect the risk may wrong and do great injustice to an entire community. It may be so low as not only to tempt the owner to over-insure, but to become careless with his property. The moral hazard increases and fires come, which destroy not only his, but hundreds of thousands of dollars worth of other people's property.

Would it not be far better to have laws protecting the insurance companies and permitting their operation for the purpose of correcting these evils? Companies that will use their experience and knowledge of the physical hazards and the surrounding exposures, and fix such equitable rates as will not only guarantee the full payment of honest losses, but also establish such sensible rules as will result in being a preventive of many losses by fire.

The great curses—if I may so call them—to the insurance business are “valued policy” and “anti-compact” laws. They offer great inducements for

and are the cause of many fires. I know of a case in point, in this city, where a building on one of the principal streets is insured for double its value. Under the "Wisconsin valued policy law," if the building was totally destroyed, the assured could claim and collect the full insurance. I do not say that this building, insured for double its value, will burn, but in the hands of very many persons what a temptation there would be to have it burn, and with it, perhaps, thousands of dollars worth of adjoining property belonging to innocent parties. If the State had no anti-compact or valued policy laws, over-insurance could be easily remedied. The compact manager would then be at liberty, and it would be his duty to inform all companies of the over-insurance. They would have the remedy in their hands and govern themselves accordingly; thus doing away with the inducement for burning the premises and subjecting other property to loss or destruction.

Mr. Dean, in his able article, has said how rates could be made on a fair and equitable basis. I will therefore not trespass any further upon your valuable time. I would heartily recommend that all you honorable commissioners of insurance use your influence to abolish all laws mutually detrimental to insurance companies and their patrons, particularly the anti-compact and valued policy laws.

RE-INSURANCE RESERVE OF FIRE INSURANCE COMPANIES.

THOMAS S. CHARD :

DESIGNATION OF THE ACCOUNT.

A DISTINGUISHED American humorist, having announced as the subject of his principal lecture—"The Babes in the Woods," thereafter referred no more to those mythical infants. In like manner, the theme assigned to me for this occasion, might be dismissed with its mention—for a re-insurance reserve belongs also in the airy realms of unreality.

It may be assumed that a substantial insurance company does not organize with any well-defined intention of liquidating. No such company begins its career by establishing a re-insurance fund, any more than a healthy and sensible youth sets aside his first earnings for funeral expenses.

When we use the term re-insurance reserve we have in mind—or should—the indebtedness of insur-

ance companies to their policy-holders for unearned premiums—and not the sum necessary to re-insure the business of the said companies.

In part, the laws of many of our States are responsible for the erroneous designation of this account. For example—the State of Iowa provides that companies shall be charged with the amount required to re-insure all outstanding risks on the basis of 40 per cent. of the premiums on all unexpired risks. Liberal, certainly ; but why the reference to re-insurance ? Massachusetts requires that “the re-insurance reserve shall be computed at fifty per cent. of the premiums received on fire and inland risks, and upon risks covering more than one passage not terminated upon which the reserve is sixty per cent. except that companies with less than \$300,000 capital must reserve the whole amount of marine and inland premiums.” New York avoids the use of the term and provides that each company shall be charged with a sum equal to the total unearned premiums on the policies in force, calculated on the gross sum (without any deduction on any account) charged to the policy-holder for each respective risk from the date of the issuance of the policy.

Illinois debits companies with the full amount of their unearned premiums, and made no reference to any supposed re-insurance reserve until

the enactment of the advertising law of 1879. Therein, companies are required to list among their liabilities as published, "the fund reserved for the re-insurance of outstanding risks." The law does not fix any standard for the determination of this fund—nor specifically identify it with the unearned premiums referred to in previous sections. Missouri charges the amount required to "safely re-insure all outstanding risks—estimated by taking fifty per cent of the gross premiums on all unexpired fire risks that have less than one year to run." The laws of Wisconsin debit the companies with "the amount required to re-insure all outstanding risks." The following States do not (or did not recently) mention this liability, but merely provide that the proper officer shall require such form of statement as, in his judgment, will clearly reveal the financial condition of the companies, viz.: Delaware, Florida, Indiana, Louisiana, Mississippi, North Carolina, South Carolina, South Dakota, Utah, Virginia, West Virginia, Idaho, Arizona Ter. Ohio definitely states in her statutes that the amount required for re-insurance shall be equal to fifty per cent of the whole amount of premiums on unexpired risks and policies. Out of this jumble of legislation has emerged the term re-insurance reserve.

THE RE-INSURANCE STANDARD.

Some underwriters, perhaps misled by the phrase, claim that they should be debited with no sum on this account beyond that required to re-insure their whole business with a solvent company. To this theory there are two objections.

FIRST.—Re-insurance does not relieve a company from its obligations to its policy-holders, nor from any portion of these obligations. The debt to the policy-holder is measured by the amount of the premium unearned, and cannot be abated by any considerations of good will or expense. Hence the amount that a third party might be willing to carry the risks for, does not and cannot determine the liability of the original underwriter to his client.

SECOND.—As none could determine in advance the amount that would be required, the theory could not be applied. One wishing to re-insure an unprofitable business would find his bonus measured by the inexperience or greed of the purchaser. While, as Carlyle has said, "There is no known head so wooden but there are other heads to which it is a genius," yet some woods are softer than others. The conflict of opinion on this account, therefore, that might arise between the inexorable Commissioner, and the optimistic underwriter would be at once bewildering and hopeless. The

good will of certain long-established companies that have a carefully selected business is worth nearly as much as the sum of their unearned premiums. Hence, were the cost of re-insurance the test, this liability would be set down in the statements of many old-line companies at an amount largely below the sum actually due the policy-holders, and therefore below the debit now acknowledged.

THE LOSS-RATIO STANDARD.

It has been suggested that the re-insurance liability of a company be estimated on the basis of its loss experience. This experience however is determined by a number of transient causes—among them current income. The business of Company "A" with a sixty per cent. loss ratio to premiums, on a decreasing income may be more profitable than that of "B" whose loss ratio is fifty per cent. on a rapidly increasing income. Reduction in unearned premium liability may more than offset the smaller ratio. Companies are always experimenting and a high-loss ratio may be the result of unfavorable experiences with certain classes leading to their abandonment. The company with the lower ratio inspired with the egotism of success may in turn try and abandon the same experiment.

Insurance is the seesaw of wisdom and folly. Aside from this, natural and uncontrollable causes

operate to produce great fluctuations in the loss ratios of even the companies that pursue the steadyest policy. To illustrate this, take the experience of a few leading insurance companies whose business relations extend over the entire country.

BASED ON NET PREMIUM RECEIPTS.

	LOSS RATIOS 1893 TO 1897.	
	Low	High
Aetna, Conn.....	49-5	61-4
American, Pa.....	54-3	93-9
Connecticut.....	47-9	66-5
Continental, N. Y.....	47-0	60-2
Fire Association, Pa.....	50-9	76-6
Fireman's Fund, Cal.....	52-8	61-2
German American, N.Y.....	45-5	63-6
Germania, N. Y.....	37-2	57-1
Hanover, N. Y.....	50-7	107-4
Hartford, Conn.....	48-9	56-9
Home, N. Y.....	48-2	66-7
Ins. Co. of N. A., Pa.....	61-9	76-3
National, Conn.....	46-3	60-3
Niagara, N. Y.....	45-6	75-7
Phoenix, N. Y.....	54-5	68-1
Phoenix, Conn.....	56-5	72-1
Springfield, Mass.....	46-3	70-7

A low-loss ratio may cause recklessness leading to a high ratio which in turn may produce conservatism. Hence present ratios afford no certain standard.

RATIO OF RESERVE TO AMOUNT AT RISK.

Some underwriters have contended that compan-

ies should be required to compute their reserve on the basis of the amount written rather than on the premium income. Due reflection will show that such contentions are fallacious. The ratio of reserve to amount at risk is determined by the character of the business. It increases in the proportion that companies write high rated annual and term risks. The company quoted in the Wisconsin reports as having the highest ratio of reserve to risk (1.53) writes only in the Western States where rates are high because hazards are great. The company showing the smallest ratio of reserve to risk (83cts) in 1897 writes chiefly in well-built brick cities. Two companies therefore may have an equal amount at risk yet the reserve of the one may be double that of the other, the statements in each case being just. Amount written in such instances gives no clue as to the amount due holders of unexpired policies or even as to adequate reserve for losses, if the unearned premium fund were supposed to be established for that purpose.

UNIFORM RATES AND CLASSIFICATIONS.

There is a view respecting this debit that has been approved by eminent actuaries, and that has received the qualified endorsement of a body of your predecessors, namely, that there should be a standard of rates by which to measure the so-called

re-insurance reserve. In the year 1881 the subject was discussed at the Detroit Conference of Superintendents and Commissioners of Insurance, and reported on by a committee of which the Honorable Julius L. Clarke of Massachusetts was chairman. I quote as follows :

“Technically speaking, reserves should be based upon rates which correctly measure the risks assumed, and not on those received in the heat and strife of competition. But for the establishment of such a measure there is no collection of statistics now extant which commands the confidence of the profession. The most intelligent and reliable source of information would seem to be properly classified returns, and these can be best made by companies, of business done by themselves, rather than by observation made upon risks at large. It is believed, moreover, that the acquirement of such data would involve at least five years of patient labor.”

Had the committee undertaken the work, the ideal rate might have been evolved at about the time that the legislatures were evolving the anti-compact laws. Were such rates, however, obtainable, their value as a measure of reserve would be dubious. Hazards change. As the large wheel of a wagon follows the small one, so invention follows the age. Hardly an industry is stationary long

enough to furnish an average. To make the fugitive elements in the history of any class the basis of an average wherewith to measure reserves, would be like striking an average of the combined ages of a dodo, a turtle and a mule; when obtained, it would be inapplicable to any creature known to man. An average is mainly serviceable when the factors remain substantially identical throughout the selected period, and survive unchanged to be dealt with according to past results.

Since Job said: "My days are swifter than a weaver's shuttle," and David sang, "Our years are three score years and ten," a steady stream of light has poured upon the question of the average duration of life and, in our times, of insuring it. Yet a learned authority has said to this convention: "Mortality, expense, and interest, are constantly variable factors. Their variations are incapable of previous demonstration. * * * We must be reasonably sure that we are somewhat overcharging (for life insurance) or we are not reasonably sure that we are charging enough." If such uncertainty follows that interest, how much more does it pursue fire insurance, whose factors change with kaleidoscopic facility, whose dealings are with innumerable dissimilar and novel classes, and whose fortunes are

shaped by the invisible hand of moral hazard ! We may not expect here an exact science.

“ The unfinished window in Aladdin's tower
Unfinished must remain.”

Experience tables for measuring the so-called re-insurance reserve, if compiled, I believe would be used as the entering wedge for State insurance. Some writers of prominence have urged that the State furnish indemnity against fire loss on the basis of cost shown by such tables. In the case of the life insurance companies their mortality tables deduced from universal experience offer melancholy testimony to the fact that “all flesh is grass.” The experience of these companies, however, reveals an intelligent and justifiable preference for the grass that, far as possible, is removed from *hay*. The fire insurance companies on the other hand cannot work from the theorem that all risks burn ; but in absence of universal records they must let the part stand for the whole, and accept as the basis of their estimates, *the selected business on their books*. Under the stress of competition, however, rates will equalize, whatever the system. It would be suicidal to use fire insurance rates, based upon experience with selected risks, as a guide to the value of all risks accepted without discrimination by public officials. Moreover, while there is a general average of rate as to each class, it

is also true that no two members of the class have the same value. Discriminative judgment, therefore, is indispensable, and this, under a State system, would lead almost certainly to unfair manipulation and rates influenced by "pulls." For there is no reason to suppose that fire taxes would be collected any more equitably than are other taxes whose assessment is the reproach of the times.

Yet, valuable as are experience tables, they are the tools—not the product; the scaffolding—not the building; and he who should mistake himself for an underwriter because he possessed such a table, would be as one who fancied himself a carpenter because he owned a saw.

Experience tables also are valuable only while modern. Some underwriters still cherish classifications of great age which contain the dross of many hazards long extinct—classifications like the mysteries of Eleusis sacred and valueless.

NATURE OF THE DEBIT.

One argument which influenced the able committee from whose report I have quoted, runs thus: Two companies accept each a risk of \$1,000 on the same mill. One charges 5%, receives \$50.00, reserves \$25.00. The other charges 3% receives \$30.00, reserves \$15. Hence that under present systems a

reserve diminishes in the proportion that the necessity for it increases.

But, in the case cited, the company receiving the \$30.00 having earned the half owes only the other half however foolish the bargain, whilst the company receiving the \$50.00 owes all of \$25.00 were the contract the acme of wisdom.

Such arguments (for rate standards) assume that the unearned premium reserve is a provision for the payment of losses, whereas it is merely the measure of a present liability for premiums. One debt cannot properly be considered a reserve to pay another. The underwriter should not rob Peter to pay Paul. To Cæsar he should render Cæsar's things.

Moreover, if to secure the holders of outstanding policies the State should establish a standard of rates, it should for like reason maintain a standard of expense. Whether a rate is or is not adequate may depend upon economy of management. Because of this, one company often thrives upon rates that send another company to the receiver. Such insurance details are too complex for any judgment but that of trained underwriters stimulated by self-interest. Governmental paternalism, therefore, would seem out of place along this line. It would need to hold too many reins.

Before dismissing this branch of the subject, let

me ask your attention to the fact that the occurrence of a loss changes the status of the policy-holder as to the underwriter. If a loss is partial, the company earns the premium *pro tanto*. If it be a total loss, there is no longer any premium due the policy-holder. He ceases to have any interest in the "re-insurance reserve." His policy would not be included in any schedule were his debtor company to re-insure, and he has no claim for unearned premium, because when his loss is paid, the underwriter has discharged the entire undertaking, and there is nothing left to earn. The policy is always surrendered when a total loss is paid.

It is, therefore, to the capital and surplus representing also the earned premium that all must look for satisfaction whose premiums have been earned by fire. Fortunately, at this time, the surplus is ample, and there is no occasion for loading the unearned premium account with a fictitious liability. According to the last Wisconsin reports, the fire-insurance companies transacting business in the State, had \$100,089,845 of net surplus, and their annual premiums were \$124,651,418. On this basis they could expend \$1.15 for every dollar of premiums for over five years before reaching their aggregated capital. Long before the end of that period, the insurance commissioners on the one hand, and the stockholders on the other, would

bring to an end the conditions leading to such a loss, or relieve the insurance business of the officials who were responsible for its continuance.

TERM RISKS.

Holding as I do that the so-called re-insurance reserve merely measures the underwriter's debt for unearned premiums, I believe that all efforts to make it conform to any arbitrary standard of rates, or to determine it by the unascertainable cost of re-insurance, are wide of the mark. For, on the one hand, the same standard applied to the classes written by one company will yield a profit that, applied in the case of another company, will show a loss, the selective skill of the several underwriters making the difference in result. And as to the re-insurance tests—good will and expense—which figure largely in such contracts, cannot be admitted to diminish the liability to the policy-holder.

While thus contending, I am not prepared to favor the policy of indifference as to term insurance. Years ago, that able underwriter, D. A. Heald of New York, called attention to the excessive growth of the percentage of term risks, and sounded the note of warning. Since that time the drift has increased. The companies whose business is represented in the following illustrative table are or were those operating in New York State, and the

table itself—minus the percentages—will be found in the proceedings of the National Board of Fire Underwriters. Risks written for two and four years represent so small a percentage of the whole that they are not tabulated. The record of 1860 is also given by way of showing the contrast with the current business.

OUTSTANDING RISKS AT THE END OF EACH YEAR NOTED.

YEAR	TOTAL RISKS IN FORCE	ANNUAL RISKS OR SHORT TERM	PER CENT. AN- NUAL	THREE YEAR RISKS	PER CENT. 3 YEAR	FIVE YEAR RISKS	PER CENT. 5 YEAR
1860	\$1,345,004,487	\$1,267,961,136	94.27	\$20,157,396	1.50	\$56,866,055	4.23
1880	7,024,094,461	4,594,108,082	65.41	1,528,178,928	21.75	762,994,229	10.88
1881	7,877,287,723	4,995,280,779	63.41	1,760,038,721	22.34	976,923,122	12.39
1882	8,544,497,024	5,240,973,510	61.33	2,052,460,376	24.02	1,083,529,841	12.68
1883	9,401,867,503	5,564,510,013	59.18	2,343,365,184	24.92	1,309,282,208	13.92
1884	9,751,099,810	5,396,179,917	55.38	2,655,177,433	27.22	1,512,365,460	15.50
1885	10,266,490,299	5,458,151,259	52.65	2,985,800,866	28.80	1,731,974,061	16.70
1886	11,189,989,673	5,766,152,632	51.53	3,302,859,618	29.51	1,934,404,415	17.20
1887	11,834,860,559	5,888,577,550	49.75	3,629,327,399	30.66	2,073,141,331	17.51
1888	12,687,769,709	6,085,712,188	47.96	4,120,132,056	32.47	2,213,614,588	17.45
1889	13,413,933,074	6,279,086,941	46.80	4,519,767,939	33.69	2,351,972,004	17.58
1890	14,860,244,531	6,843,728,682	46.05	5,073,549,127	34.14	2,669,023,461	17.96
1891	15,700,631,991	7,031,994,214	44.78	5,505,572,706	35.06	2,862,387,148	18.23
1892	16,686,017,337	7,555,282,157	45.28	5,888,452,078	35.29	2,910,383,354	17.44
1893	16,894,003,775	7,438,275,328	44.03	6,187,399,864	40.17	2,932,541,252	17.36
1894	16,860,572,393	7,161,456,909	42.47	6,431,306,798	38.14	2,942,548,854	17.43
1895	17,470,582,099	7,500,757,137	42.95	6,754,142,726	38.66	2,879,805,744	16.48
1896	18,027,509,488	7,667,293,201	42.53	7,138,434,411	39.59	2,777,761,218	15.96
1897	18,878,075,387	8,058,476,892	42.68	7,591,893,884	40.21	2,904,621,345	15.38

It will be seen that one year or less term business has declined from 94.27 per cent. of the whole premiums in 1860 to 42.68 per cent. in 1897, and that the percentage of term premiums is practically now ten times that of the earlier date.

If no man can tell what the morrow shall bring forth, much less can he foretell the changes of the next three or five years. Yet the varying experi-

ences of that period will affect nearly sixty per cent. or over ten billion dollars, of the underwriter's risks.

It may be that some up-turn will load with peculiar moral hazard the very classes now freely written for long terms—or invention may augment their physical hazard with lighting and heating appliances now unknown.

At this time fundamental problems are discussed widely, often bitterly, and much that passes as humanitarianism is anarchy in disguise. How far unhealthy sentiment will be restrained by the sober sense of the people, and how far it will materialize in oppressive legislation, none can tell. It is certain that those are abroad who seek preferment by fomenting prejudice against corporations, and diligently search in halls of legislation for the "last straw." Such schemers do not know that insurance is the repository of a vast trust-fund belonging to the people. They do not know, nor care, when they break the pitcher at the fountain, *whose* waters will be wasted in the sand.

To you, gentlemen, charged with high responsibilities, these facts would seem of interest. In view of its *present* status you may authorize a company to do business in your States in 1898. Yet nearly sixty per cent. of its now assumed lia-

bilities will rest on securities other than those you certify. What the status of the company will be in 1901 or 1903 you cannot tell. All insurance contracts must run into the future, but if supervision is justifiable on sound commercial principles it should require one of two things—either a time limit on policies, that there may be maintained some contemporaneous relationship between the liability and the security on which it is based; or such exceptional strength of capital and net surplus as to give reasonable assurance of ability to meet claims that in the long future may arise under present contracts.

At this time, after providing for the unearned premiums on the legal basis, companies do not concern themselves to maintain any established ratio between the liability assumed under term policies and the sum of their capital and net surplus. Some companies have of net assets less than 40 cents for every hundred dollars at risk for long terms. Such ratios grade up to four and five per cent exhibited by other companies. The ten largest American fire insurance companies had (Dec. 31, 1896) \$1.16 of capital and net surplus for every \$100 of term liability. It would seem as if this ratio should be low enough to satisfy the conservatively ambitious. The term of liability is apt to grow longer in the proportion that the rates grow

shorter, a fact that gives another reason for watching carefully this item.

There are indications, however, that five-year risks have touched their limit of proportionate increase. While, because of competition and to meet the views of mortgage-holders, the underwriter in a measure has felt obliged to write such risks, he is beginning to see that prudence requires a modification of his practice in this respect. It is the belief of eminent financiers that the rate of interest in this country will continually tend downward. At even the rate of $4\frac{1}{2}\%$ interest, and with four annual premiums paid in advance, the difference is decidedly against the underwriter who accepts a five-year rather than five annual contracts. Discarding expenses from consideration, and crediting each premium with interest at $4\frac{1}{2}$ per cent, a \$5,000-five-year policy, at one per cent per annum, would yield \$249.12, and five annual policies on the same risk would yield \$284.87, a difference of \$35.75 against the term transaction. We assume that the underwriter collects four annual premiums on the five-year policy, whereas it is common practice to write such risks for three annual terms.

It is proper to state, that while the premium receipts of the companies in general have not increased since 1893, the unearned premium set apart by any company on the first of the year since that

date, has seldom failed largely to exceed in amount the loss payments for that year. Where the annual losses habitually, or even frequently, exceed the annual reserve, and the fact is not accounted for by a largely increasing business, the explanation may be that the management lacks conservatism, or, that the reserve may be computed erroneously. Whatever the reason, the prudent commissioner should seek it. As each premium dollar, theoretically, covers forty cents of expense and profit, it follows that a reserve based upon the unearned portion of the whole dollar, should cover a fire loss estimated to consume but sixty per cent. of it.

A glance at the reserves of twenty-five leading companies shows that none estimates its unearned premiums at less than seventy per cent. of the amount of its annual premium receipts. While this ratio will vary largely because of the cultivation or discouragement of term risks, my view is that save in the case of new companies writing only short and annual risks, a sixty-five per cent. ratio of unearned premium reserve to annual premium receipts, unless there has been a heavy decrease in term writings, is minimum for safety, and if the ratio falls much below that figure, the commissioner should "watch out." One of the worst insurance failures of modern times occurred in the case of a company that had regularly reported its un-

earned premiums at a figure which was less than fifty per cent. of its annual premium receipts.

COMPUTATIONS APPROXIMATE ONLY.

We may as well admit that all statements as to unearned premium liability are approximate only. It would be impossible to fix the *exact* liability, unless one knew the status of every one of thousands of living policies, and could apply that knowledge by instantaneous calculation. The law, therefore, recognizes the limitations of the mind, and gives us a system of averages.

This system assumes that all living risks, written for the term of one year or less, have earned at the end of the year, on the average, one-half of the premium, and that all living risks written for a term exceeding a year have earned their pro rata of the premium, according to the time they have run.

MINOR DEFECTS IN SYSTEM.

Though arbitrary and inaccurate, certainly as to annual risks, this method is perhaps fairly safe in most cases. Yet, where a business is increasing rapidly, the reserve fails of sufficiency and is more than required where the income is decreasing. One objection to the system as applied is, that it admits of thimble-rigging. It would be possible for a company in unsafe condition to re-insure a large

portion of its business, for a day or two, at the end of the year with some confederate, thus reducing artificially its legal debit—or, it might at that time suddenly take on by re-insurance a large volume of business. While an insurance commissioner might not object to such financiering as being obnoxious to the law, I think he might say to the underwriter, as the orthodox Quaker said to the burglar—"Friend, I am sorry, but thee is just where I am going to shoot."

Were the annual statement to include a record of re-insurance received and placed by months, such manipulations, if they have been practiced, would be discouraged.

In former days it was somewhat usual to include a policy-fee in the premium. The net amount, being reported to the company, was made the basis of the re-insurance computation, though the liability of the company to the assured was based on the larger sum. It is to be feared that some companies, wishing to wink at the unfair practices of their agents, have accepted notices of premium rebates, which, never having been paid to or expected by the assured, were, in effect, an increase of compensation to the agent. If we are to have a recognized liability for unearned premium—let the account represent square transactions, without deductions for any improper or under-handed allow-

ances to any person, whatsoever. On the other hand, the account should not serve as the hiding place of any sinking fund held against the day of adversity.

INTEREST ON UNEARNED PREMIUMS.

In estimating trade profit the interest earnings of the unearned premiums are usually ignored. Perhaps because it is impossible to determine such earnings accurately. In truth the whole sum of unearned premiums is never at interest.

In the case of marine premiums the gross premiums are charged to the underwriter as being unearned, though a considerable part thereof has been earned on outstanding policies.

The following computation may help us to some approximation to the interest earnings on this account. It is based on the statements of ten leading fire insurance companies made to your departments, December 31, 1896. Their reports show :

Assets at interest Dec. 31, 1896	\$59,577,105
Capital and net surplus	36,453,845
Income from interest, dividends and rents	2,701,134
Premiums in hands of agents	5,365,213
Cash on hand and in banks	4,027,757
Unearned premiums	28,332,272
Average per cent interest on assets at interest	4.534

The ten companies are representative and their experience will stand fairly well for that of all well-managed underwriters.

As will be seen \$5,365,213 premiums had not been paid over to the head offices if collected by the agents. Cash of \$4,027,757 represented also a non-interest bearing fund. Some of this sum no doubt came from interest or dividends ; but as statements are made just before dividend day, it is safe to say that nearly the whole amount of cash on hand December 31, was derived from current premiums. A small percentage of the premiums uncollected, or in the hands of agents was earned, say one-twelfth, giving us \$4,918,112 as the unearned portion of the uncollected premium, which added to cash is \$8,945,869.

We have found that the unearned premiums of the ten companies amounted (Dec. 31, 1896) to \$28,332,272. From the assured's standpoint, the underwriter would seem to be earning interest on this whole sum, less amount uncollected premiums and cash uninvested. But, like other mortals, the underwriter "cannot have his cherries and eat them too." If he expends thirty-five cents of expense to secure \$1.00 of premium, only sixty-five cents of interest-bearing funds can remain. This is as true of the portion of the dollar that remains
rned as it is of that which is earned. Elimin-

ating, therefore, \$9,916,295 which is 35% of the \$28,332,272 unearned premiums, we have left \$18,415,977 or a net residue of \$9,470,108 after deducting also the uncollected premiums and cash on hand already noted. Assuming that this sum earns the average interest rate of 4.53% we have \$429,003 or seventy two cents on each \$100.00 of the entire interest-bearing assets of the companies ; or again, a sum equal to 1.18% interest on the combined capital and surplus of the ten companies.

We have here assumed that the sum reported as uncollected premiums by these companies at the end of the year is about a fair average of such delinquencies from month to month. In fact the amount uncollected at the end of the year and therefore not at interest would be considerably smaller than the average sum outstanding. At that season delinquents are under unusual pressure to make good unpaid accounts. This consideration would reduce still further our interest estimate. Enough, however, may have been shown to clear away some current errors and indicate that the revenues from this source are less than generally supposed.

CANCELLATIONS—MAXIMUM LIABILITY.

The unearned premiums of a company are held in trust subject to conditions respecting termination

which are not considered in the legal reserve. The law assumes that all risks not carried to their original termination will be cancelled at the instance of the underwriter. Hence the Company is charged in all cases with the full pro rata of the premium for the unexpired term.

While by far the larger number of policies expire uncanceled, perhaps somewhat over ten per cent. of the premium is returned by cancellations to policy holders. But a small fraction of this sum is chargeable to the wish of the underwriter. Generally he is quite willing to retain such risks as are on his books. He, therefore, usually receives through short rates a larger share of the premium than is credited to him in the legal reserve.

For all practical purposes, however, the underwriter should be charged with his maximum liability as in event of bankruptcy that would measure his debt.

Under a strict construction, so long as the underwriter's obligation to his policy-holders cannot be diminished, as to them, by any act to which they are not parties, it might be questioned whether his unearned premium account should be credited with any re-insurance. However, custom has so established the practice that its interruption, in many cases, would be a hardship.

The security of any company for the purpose of

re-insurance credit, may well be accepted if that company has submitted its affairs to examination by duly constituted State authorities, and has been approved as solvent. But it would not seem good practice to permit the unearned premium liability to be abated by re-insurance in companies that have never reported to our authorities, nor been examined by them, and whose solvency therefore is conjectural.

The assets of an insurance company admitted to do business in any of our States must be described definitely and have a value that can be ascertained conveniently upon due inspection. Corner lots in the planet Jupiter, or Klondike mining stock, would not be accepted as assets because their values would not be easily verifiable. Any company that should ask to do business in a State without submitting a financial statement would receive a prompt refusal. It would appear, therefore, that a company should not be suffered to do indirectly that which it cannot do directly. If it cannot without examination be permitted to assume liabilities in any State, it should not be permitted without examination to offset the liabilities of other companies in that State. A re-insurance credit after all is in essence like any other asset, and it should be approved only, if at all, when that which supports it is within reach for examination.

UNEARNED PREMIUMS ARE NOT REALIZED PROFIT.

The habit of many non-professional writers on insurance of ignoring the unearned premium liability is a source of annoyance to underwriters. Recently a Western editor less widely known as a thinker than as a writer has denounced the insurance companies because of what he calls their extortionate rates. Under his method, all premiums are fully earned on payment and no offset is allowed for future obligations.

We are moved to remind such critics that people do not buy policies for their scrap-books. When paying the premium they expect, should a fire loss occur, that the company might be willing to do something. They are of a numerous class whose combined expectations are based upon a contingent liability of more than \$18,000,000,000 assumed by the underwriters, a sum which though representable in figures is too vast to be comprehended by the mind. The unearned premium on this sum, deposited with the underwriter is over one hundred million dollars. It is his, when he earns it. It does not represent what he owns but what he owes, and long before it becomes his property he will have paid on account of it many millions of dollars of fire loss and expense. A premium unearned, therefore, is not the same as a profit realized.

CLERICAL LABOR AND DETAIL.

Commenting on the particular system pursued at the home office of the company with which I am connected, Mr. Henry Ward, who has in charge the unearned premium accounts of the company writes as follows :

“ To accurately keep a record of the Re-Insurance Reserve, and the amount at risk under the present form of computation, requires an amount of detail work that to an outsider is incomprehensible and may appear unnecessary ; but while it is possible that some companies may have a shorter way of arriving at the result, it is impossible for any company to have a system more accurate. For instance, for each of our Departments we have a set of four books.

- “ One for amount and premium written ;
- “ One for amount and premium re-insured ;
- “ One for amount and premium cancelled.

“ Each of these books is printed and arranged for say ten years, the years along the top of the pages, and cut down the sides for the months, each month being separately indexed at the top to represent five years, and the total figures of each of above three classes every month are segregated into the months and years of expiration of business and posted into their respective months.

“This segregation alone entails considerable
“labor, for premiums written in say September,
“1898, while largely expiring in September 1899
“and 1901, might have some portion expiring in
“any of the sixty months between September 1898
“and September 1903.

“The cancellations have all to be marked off and
“the amount of original premiums received on such
“cancellations segregated and posted in the various
“months in which such cancelled business would
“have expired if run to expiration. (If we segrega-
“ted the return premiums paid we should unneces-
“sarily be carrying until expiration the difference
“between original and return premium, and cor-
“respondingly increasing our reserve.)

“The fourth book is to show the amount in force
“and the premiums thereon, and is the proof of all
“the preceding posting. January, for example, is
“the total of all the business on the books of
“January 1898, 1899, 1900, 1901 and 1902, and so
“on with each month.

“To arrive at the reinsurance reserve, we have
“to further segregate the net business so posted
“to find out the pro rata as called for by present
“system, which is: On all business written for
“one year or less at risk at the end of any year
“50%, on the assumption that a company doing a
“regular business has an equal number of policies

“having only one day to run to expiration as it
 “has policies that have only run one day.

“This system is carried out on two-year business
 “on the same equation of time, *i. e.*, if written
 “this year, at the end of the year it would be as 6
 “months is to 24, one fourth, $\frac{3}{4}$ reserved, and at
 “the end of two years, as 18 months is to 24, $\frac{1}{4}$ re-
 “served.

“In like manner at the end of the first year of a
 “three-year policy, $\frac{5}{6}$ reserved; second year, $\frac{1}{2}$;
 “third year, $\frac{1}{6}$.

“At the end of first year of a four-year policy
 “there must be $\frac{7}{8}$ reserved; at the end of second
 “year, $\frac{5}{8}$ reserved; at the end of third year, $\frac{3}{8}$
 “reserved; at end of fourth year, $\frac{1}{8}$ reserved.

“At the end of first year of a five-year policy
 “there must be $\frac{9}{10}$ reserved; at end of second
 “year, $\frac{7}{10}$; at end of third year, $\frac{1}{2}$; at end of
 “fourth year, $\frac{3}{10}$ reserved; at end of five years
 “ $\frac{1}{10}$ reserved.”

In addition to the facts noted in the intelligent
 description given by Mr. Ward, I may say that
 extensions and reductions in the original term
 must be recorded, and, indeed, all endorsements
 observed for their effect, if any, on these accounts.

Were each of our States to require a special re-
 port of the exact status of the unearned premiums
 on risks within its own borders, the books now re-

quired would need to be multiplied many times. I am sure that I voice the wish of every underwriter in the country in expressing my own, that so enormous an expense be not added to the clerical work of the business, an expense yielding no results that would excite more than a passing interest.

I have referred to the inaccuracy of the present method of computing the unearned premium reserve. It is so especially as to the reserve for annual premium. In the case of the three- and five-year risks so large a percentage of the premium lies beyond the year of the writing that, being computed with reference to the whole term, the variation in the reserve is not so serious.

Perhaps the most accurate method of computing the reserve would be by an equation of months; the next nearest approach to accuracy would be by an equation of quarters of years. Lastly, the present method which when honestly followed is satisfactory in nearly all cases. When a company is beginning business, or is rapidly increasing its premiums because of an extension of its territory, or other cause, the monthly equation will yield a little larger reserve, especially as to the one-year risks.

The following tables will serve to illustrate the results reached by the system recommended in such exceptional cases as against the current treatment of all annual risks as half earned :

We will take the case of a company beginning January 1, 1898, and developing its interests with due energy throughout the year. We will assume that its annual and term risks correspond in their proportions with those of the aggregate of companies shown elsewhere herein. The premium receipts then will be shown in Table A :

TABLE A.

MONTHLY PREMIUM RECEIPTS.		ONE YEAR.	TWO YEARS.	THREE YEARS.	FOUR YEARS.	FIVE YEARS.
January	\$10,000	\$4,268	\$86	\$4,021	\$87	\$1,538
February	12,000	5,122	105	4,825	105	1,843
March	13,000	5,547	113	5,227	114	1,999
April	14,000	5,975	121	5,629	122	2,153
May	14,000	5,975	121	5,629	122	2,153
June	15,000	6,402	129	6,031	131	2,307
July	17,000	7,255	146	6,836	148	2,615
August	19,000	8,109	164	7,640	165	2,922
September	20,000	8,536	172	8,042	174	3,076
October	21,000	8,962	181	8,444	183	3,230
November	22,000	9,389	190	8,846	191	3,384
December	23,000	9,815	199	9,248	200	3,538
\$200,000		\$85,355	\$1,727	\$80,418	\$1,742	\$80,758

Under the present method of computing reserves the unearned premium would be as follows :

\$85,355	Annual	Reserve, 50%	\$42,678
1,727	Two Year	" 75%	1,395
80,418	Three Year	" 83½%	67,015
1,742	Four Year	" 87½%	1,524
30,758	Five Year	" 90%	27,683
\$200,000	Say 70% average,		\$140,205

If now the unearned premiums of this business were computed by months as indicated in the tables

(hereafter given) for one—two—three—four and five year risks—the results would be as shown in

TABLE B.

1898 PREMIUMS.	ANNUAL UN- EARNED.	TWO YEAR	THREE YEAR	FOUR YEAR	FIVE YEAR	TOTAL
Jan'y \$10,000	\$177	\$45	\$2,736	\$65	\$1,241	\$4,264
Feb'y 12,000	640	59	3,417	82	1,520	5,718
March 13,000	1,255	68	3,842	97	1,683	6,945
April 14,000	1,741	78	4,298	100	1,848	8,065
May 14,000	2,240	83	4,448	103	1,885	8,759
June 15,000	2,933	94	4,941	113	2,054	10,135
July 17,000	3,930	112	5,795	131	2,376	12,344
August 19,000	5,068	133	6,684	149	2,702	14,736
Sept. 20,000	6,046	147	7,260	161	2,898	16,512
Oct. 21,000	7,094	162	7,855	173	3,093	18,377
Nov. 22,000	8,216	178	8,476	186	3,299	20,355
Dec. 23,000	9,406	195	9,119	197	3,510	22,427
\$200,000	\$48,746	\$1,354	\$68,871	\$1,557	\$28,109	\$148,637

showing a liability larger by \$8,432 (or say 6% more) than that charged under present rules.

If the unearned premium in the supposed case had been computed by quarter years it would have been \$147,889. If by half years it would have been \$146,762. Recapitulating the various methods of computation we have as follows:

	RESERVE PRESENT METHOD	IF COM- PUTED BY MONTHS	BY QUARTERS	HALF YEARS
Annual Prems. \$85,355	\$42,678	\$48,746	\$48,127	\$47,371
Two Year 1,727	1,295	1,354	1,363	1,331
Three Year 80,418	67,015	68,871	68,763	68,489
Four Year 1,742	1,524	1,557	1,551	1,547
Five Year 30,758	27,683	28,109	28,085	28,024
200,000	\$140,195	\$148,637	\$147,889	\$146,762

The following Tables C to G inclusive may be useful in equating the unearned premiums of annual and term risks by months, quarters and half years.

TABLE C.
ONE YEAR RISKS.
UNEXPIRED TERM OF RISKS WRITTEN DURING 1898.
On January 1, 1899.

MONTH WRITTEN.	EACH MONTH EQUATED $\frac{1}{2}$. UN- EXPIRED TERM. JAN'Y 1, 1899.	EQUATED BY QUARTERS. UNEXPIRED TERM. JAN'Y 1, 1899.	EQUATED BY THE HALF YEAR. UNEXPIRED TERM. JAN'Y 1, 1899.
Jan'y 1898	$\frac{1}{2}$ month	First quarter	3 months
Feb'y "	$1\frac{1}{2}$ months	average unexpired	
March "	$2\frac{1}{2}$ "	$1\frac{1}{2}$ months	
April "	$3\frac{1}{2}$ "	Second quarter	9 months
May "	$4\frac{1}{2}$ "	average unexpired	
June "	$5\frac{1}{2}$ "	$4\frac{1}{2}$ months	
July "	$6\frac{1}{2}$ "	Third quarter	9 months
August "	$7\frac{1}{2}$ "	average unexpired	
Sept. "	$8\frac{1}{2}$ "	$7\frac{1}{2}$ months	
Oct. "	$9\frac{1}{2}$ "	Fourth quarter	9 months
Nov. "	$10\frac{1}{2}$ "	average unexpired	
Dec. "	$11\frac{1}{2}$ "	$10\frac{1}{2}$ months	

TABLE D.
TWO YEAR RISKS.

Jan'y 1898	12½ months	}	First quarter	}	15 months or 5⁄8 of term	
Feb'y "	13½ "		average unexpired			
March "	14½ "		13½ months			
April "	15½ "	}	Second quarter	}		
May "	16½ "		average unexpired			
June "	17½ "		16½ months			
July "	18½ "	}	Third quarter	}		21 months
August "	19½ "		average unexpired			
Sept. "	20½ "		19½ months			
Oct. "	21½ "	}	Fourth quarter	}			or 7⁄8 of term
Nov. "	22½ "		average unexpired			
Dec. "	23½ "		22½ months			

TABLE E
THREE YEAR RISKS.
UNEXPIRED TERM OF (THREE YEAR) RISKS WRITTEN DURING 1898.
On January 1, 1899.

MONTH WRITTEN	UNEXPIRED TERM EQUATED BY MONTHS.		UNEXPIRED TERM EQUATED BY Q'R'S OF YEAR		UNEXPIRED TERM EQUATED BY THE HALF YEAR.
	Jan'y 1, 1899.		JAN'Y 1, 1899.		_____
					JAN'Y 1, 1899.
Jan'y 1898	24½	Months	}	First quarter	}
Feb'y "	25½	"		average unexpired	
March "	26½	"		25½ months	
April "	27½	"	}	Second quarter	}
May "	28½	"		average unexpired	
June "	29½	"		28½ months	
July "	30½	"	}	Third quarter	}
August "	31½	"		average unexpired	
Sept. "	32½	"		31½ months	
Oct. "	33½	"	}	Fourth quarter	}
Nov. "	34½	"		average unexpired	
Dec. "	35½	"		34½ months	
					33 months or 11/12 of whole term

TABLE F.
FOUR YEAR RISKS.

Jan'y, 1898	36 $\frac{1}{2}$	months	First quarter	}	39 months or 15/16ths of term
Feb'y "	37 $\frac{1}{2}$	"	average unexpired		
March "	38 $\frac{1}{2}$	"	37 $\frac{1}{2}$ months		
April "	39 $\frac{1}{2}$	"	Second quarter	}	39 months or 15/16ths of term
May "	40 $\frac{1}{2}$	"	average unexpired		
June "	41 $\frac{1}{2}$	"	40 $\frac{1}{2}$ months		
July "	42 $\frac{1}{2}$	"	Third quarter	}	45 months or 15/16 of term
Aug. "	43 $\frac{1}{2}$	"	average unexpired		
Sept "	44 $\frac{1}{2}$	"	43 $\frac{1}{2}$ months		
Oct. "	45 $\frac{1}{2}$	"	Fourth quarter	}	45 months or 15/16 of term
Nov. "	46 $\frac{1}{2}$	"	average unexpired		
Dec. "	47 $\frac{1}{2}$	"	46 $\frac{1}{2}$ months		

TABLE G.
FIVE YEAR RISKS.
UNEXPIRED TERM OF (FIVE YEAR) RISKS WRITTEN DURING 1898.
On January 1, 1899.

MONTH WRITTEN	UNEXPIRED TERM EQUATED BY MONTHS.		UNEXPIRED TERM EQUA- TED BY QRS. OF YEARS.		UNEXPIRED TERM EQUATED BY THE HALF YEAR
	Jan'y 1, 1899.		JAN'Y 1, 1899.		JAN'Y 1, 1899.
Jan'y 1898	48½	"	} First Quarter Average unexpired 49½ months	}	51 months or 17/20ths of term
Feb'y "	49½	"			
March "	50½	"	} Second Quarter Average unexpired 52½ months	}		57 months or 19/20ths of term
April "	51½	"			
May "	52½	"	} Third Quarter Average unexpired 55½ months	}	
June "	53½	"			
July "	54½	"	} Fourth Quarter Average unexpired 58½ months.	}	
Aug. "	55½	"			
Sept. "	56½	"	}	}	
Oct. "	57½	"			
Nov. "	58½	"	}	}	
Dec. "	59½	"			

Permit me, in conclusion, to recommend that this honorable body appoint of its members a committee to draft a statute defining the unearned premium reserve, and the method of its ascertainment. For this debit is uniformly misnamed where mentioned. Some States do not mention it at all. No two States have the same law concerning it. Several States treat three and five-year risks as half-earned at the end of the first season. Under insurance advertising laws, it is criminal to advertise in one State a reserve approved in another. Surely, therefore, it is time that such an influential body as this should draft a wise and comprehensive statute governing this liability, and labor earnestly to make it uniform law.

It only remains to thank you for this opportunity to address you. No association better than this represents the higher elements of American character. Clothed with a discretionary power that might be used as the implement of irremediable oppression, the insurance officials of the several States, as a class, have discharged their duties with equity. The underwriter who is a student of your Annual Reports knows that insurance officials have almost uniformly opposed unjust legislation, and the public may learn from these reports that you wage relentless war against illegitimate schemes. The Insurance Commissioner of Wiscon-

sin, whose ability we all recognize, and whose graceful courtesy this occasion has witnessed, states in his last official report that not a single company licensed by him during the years of his administration has failed. This is efficient work.

Naturally in time, gentlemen of the association, you may be reached, one by one, by the mutations of political fortune. Should national supervision be an unrealizable dream and that by the State continue, may those who succeed to your positions emulate the standard you have established and in wisdom, integrity and power, guard well the interests committed to their care.

F. C. MOORE :

THIS question is one which must be decided from the viewpoint of the purpose for which the reserve is to be computed, and this purpose must be stated as a premise. If it be for making a financial statement of exhibit of the company's condition, showing its assets and liabilities, there can be no doubt that the reserve should be computed on the basis of what the company owes its policy-holders, and that the company should have in hand at all times that *pro rata* portion of each premium which cor-

responds with the unexpired time of the policy, whether the rate be sufficient to carry the risk or not. An obtained rate of two per cent. on a frame, steam-power planing-mill worth ten per cent. may be grossly inadequate for the purpose of insuring the class, but if that be the rate of the policy, one per cent. would be all that the company would owe the policy-holder at the end of six months if it should then elect to cancel.

In the absence of any stipulation in the policy that the assured shall have the right at any time to demand its cancellation and a return of premium on the agreed basis, and providing also that the company or a receiver may cancel at any time and tender the *pro rata* unearned premium, there would clearly be no right whatever to cancel. The right does not exist at law ; it is a stipulation of the contract and grows out of the contractual relation of the two parties and not out of their statutory or common law rights. This being the fact, reference must be had to the contract itself, which alone provides for a return of premium. And here there can be no question as to the liability of the company. The policy expressly states that the company must return the *pro rata* unearned premium if it elects to cancel. Therefore, in case of insolvency a receiver must return the premium on this basis.

Clearly, then, so far as a State insurance department is concerned, there can be no other basis for computing the reserve. An insurance department aims, by its annual statement queries, to ascertain the financial condition of the companies reporting to it, publishing an official statement of their assets and liabilities. On no other basis could an Insurance Department official discharge the duties of guardian or trustee of public interests, because it would be physically impossible for him, even if qualified as an expert, to pass upon the sufficiency of the rate of each individual risk in force.

And this brings us to the second proposition :

Should a company be required to reserve a sufficient amount of premium to carry each risk to its termination, paying the losses and expenses ?

The answer to this question necessarily involves the determination of another, viz.: Is it possible for an Insurance Department, by expert examination, to test the sufficiency of a company's reserve based upon the adequacy of rate for each risk in force ?

I claim that it would be physically impossible, even if the department were possessed of experts whose opinions would be rate standards, to examine the business of any large agency company before the policies under examination would have expired. Experts who are competent judges of

hazards are few in number and hard to find. In fact, no one man can be a competent expert or judge as to all classes of risks, and those who are most experienced must form their opinions by careful study of all the facts of each case, by reference to insurance maps, examination of inspectors' reports, &c., &c. Moreover, in the absence of systematic rating like that by schedules, based upon statistical experience of companies, experts, like all other doctors, disagree, and conviction either of poor judgment or of reckless underwriting would be impossible if a trial in a court of law should be had upon expert testimony.

To demonstrate the impossibility of an official test of a company's business on this basis let us take the process of deciding upon the adequacy or inadequacy of a rate in any well managed insurance company. In the first place, the local agent of the company in the town in which the risk is located is selected with reference to his judgment and ability and his local knowledge of buildings, merchandise and their owners. When he decides to accept a risk he makes a full report to the company. The examiner in the office of the company consults whatever records the company may have (and they are often voluminous) of the particular risk in question ; the town and its fire department ; the insurance map showing exposures ; the mercantile

agency report, often making a special mercantile agency inquiry ; finally passing the report of the risk to the files of the company. The risk is afterwards, in addition, generally inspected by an expert special agent or surveyor on the ground.

But this is not all. The risk may change, or the exposures may change. Clearly, to examine the risks of any one company would require at least as many men, working continuously, as were required by the company for its own purposes. They would need to be fully as expert ; indeed, they ought to be better judges of hazards than the company's own men ; and, inasmuch as every company has term business on its books, some policies running for five years, it would require more than a year to examine the business of any one company in order to determine the sufficiency or insufficiency of rate. By the time the examination could be completed the annual policies would nearly if not entirely have expired and the company would have made a profit or, perhaps, passed into bankruptcy.

Clearly, no department could examine all companies. This being the case, a law requiring a reserve based upon a sufficiency of rate and the exercise of expert judgment would simply bear heavily upon those conscientious underwriters who would aim to observe the law and be utterly ignored by the very companies who most need supervision. In

other words, a law which cannot be enforced hampers the honest citizen and favors the dishonest and tricky. Such laws should never be enacted. To put a law upon the statute books which cannot be enforced would be a wrong upon all honest underwriters.

It is sometimes necessary for companies, fully informed as to what rates should be, to accept risks below the cost of carrying them, in order to meet competition forced upon them by State laws enacted to satisfy popular but mistaken views as to tariffs. The most conservative companies are at times compelled to do this in order to preserve their business. To require them under such circumstances to reserve a rate which in their judgment would be sufficient to carry the risk—a requirement which they would conscientiously respect—would be to put them at a serious disadvantage with unscrupulous competitors, who would reserve an insufficient amount, knowing that no State department could investigate and detect their crime or punish them.

It may safely be stated that a law which depends for its enforcement upon the willing observance of conscientious men simply places them at the mercy of those with whom conscience is a missing quantity and an absent factor. It imposes a penalty upon crimes which cannot be detected, and is, therefore,

a burden upon him who is conscientious and an opportunity to him who is not.

Popular Tests of Adequacy of Rate.—It has been suggested that the average rate of a company would indicate the sufficiency or insufficiency of its reserve, and that the average percentage of loss to premium would indicate the adequacy or inadequacy of rate obtained and the sufficiency of the unearned premium reserve. Such suggestions overlook important facts. A company having the worst class of risks, and, therefore, the highest rated ones would, on this basis, show the largest unearned premium reserve in proportion to amount at risk, because it would show a high average rate of premium obtained. A company, for example, doing a large amount of long term farm business, although taken at inadequate rates, would show well in such a table. It might have unprofitable farm business in Missouri, sections of Indiana, Sullivan County, New York, or Southern Illinois, and show a higher average rate obtained than a company doing a more profitable and well selected business. As a rule, it will be observed that the companies whose average rate of premium is lowest, indicating the best class of risks, are among the most successful.

Re-insurance Fund.—This term applied to the reserve for unearned premiums is a misnomer,

growing out of a misconception of its purpose. It is claimed by some that a company ought only to be required to have in hand a sufficient sum to re-insure all of its risks with a reliable company, and that this sum would be materially less, by at least the expense of securing the business, than the *pro rata* unearned portion of the premiums on running policies. This theory overlooks the fact, which should always be kept in mind, that the measure of reserve is, and must always be, the liability to the policy-holders under their contracts. After the large Chicago and Boston fires, it will be remembered, there were few companies doing business in the United States in condition financially to assume the liabilities of any other company; each had all it could do to take care of its own risks and carry its unburned policy-holders to the expiration of their contracts. To make the measure of sufficiency that amount which some unknown, hypothetical company might be willing to accept for carrying the risks for the unexpired terms, forgetting that the emergency which would make re-insurance necessary might find all other companies in the condition which followed the Chicago fire, would be as indefinite as the celebrated boundary line suggested by Rufus Choate—"from the tail of a jay bird to a hive of bees in full swarm."

THE FOREIGN FIRE INSURANCE COMPANY AND ITS BUSINESS METHODS.

E. F. BEDDALL :

INTRODUCTION.

ON the second day of September, 1666, occurred what is now known as the "Great Fire of London," an incident in history which, if it did not suggest, at least led to the development of the idea of fire insurance, for, while individual underwriting, we are told, had previously been practiced in Europe to some extent, the origin of fire insurance as a business may be fairly ascribed to that important event and the dire results which followed it.

The first fire insurance company of which we have any record was organized in the city of London in the year 1682, and was designated "The Fire Insurance Office for Houses, etc.," which name

was subsequently changed to that of the "Phoenix," because of its badge—the Phoenix in flames—which appeared over the entrance to the office. This company was supplemented in due time by other competitors for popular favor, each claiming to offer advantages to intending insurers which the others did not possess, some urging the greater security offered by their policy contracts and others the lower price at which their contracts could be secured. From this beginning may be traced the extension of the business of fire insurance to all quarters of the globe, until to-day there is hardly a remote nook in which an agency of some company is not found.

It is not my purpose in this paper to give a history of fire insurance, nor to trace the various changes in the methods by which it is conducted and which time has brought about, but rather to present in as concise a form as possible the present manner of carrying on the business throughout the world which the experience of upwards of 200 years has developed. To do this I purpose taking up the prominent nations separately, reciting the more important laws and the rules and regulations which govern the companies in the conduct of their business, and thereafter to comment briefly upon such differences in law and practice as the result of my investigations may have disclosed.

AUSTRIA-HUNGARY.

AUSTRIA.

A Government concession is requisite for the establishment of an insurance company in Austria, and certain provisions of the federal law, the commercial code and the rulings of the Insurance Department govern its operations. Stock companies must have a paid-in capital of 100,000 gulden (about \$40,000) for each branch of insurance conducted, but the minimum paid-in capital must amount to at least 300,000 gulden (about \$120,000). Companies are required to furnish to the department a complete list of their stock subscribers with the amount of stock held by each stockholder. Mutual companies are required to have a foundation fund for such an amount as the existing conditions and anticipated volume of business demand. Aside from a re-insurance fund, a guarantee reserve is required to be formed and maintained out of the surplus earnings for a sum which must be equal in amount to the original foundation fund before dividends can be paid.

The by-laws of both mutual and stock companies must conform to statutory requirements, must describe the particular branches of business in which they are engaged, and must state whether the business is to be done direct or by way of re-insurance,

within the empire or abroad, and must receive government approval before business is commenced. Every alteration or amendment of the by-laws is subject to similar approval before it can become operative. Special conditions in policy forms are permissible in domestic transactions only when the same do not conflict with the general conditions, but merely supplement them or make them more favorable to the assured. Policy forms and application blanks must be submitted to the Minister of the Interior for his approval. Prospectuses, circulars and statements, in case they contain statistical data concerning the financial standing of the company, must receive official approval before they can be issued. This Minister has the power to prohibit a company from advertising its financial standing and likewise to require the making of a deposit by a foreign company and the increase of the deposit when made whenever he shall deem it necessary for the security of its policy-holders. Domestic companies are required under the law to give notice of the extension of their business to foreign countries and must disclose the terms upon which admission to such countries has been secured.

Newly established companies are permitted to carry in their accounts the expenses of organization as an asset for five years, but same must be

liquidated within that period. Dividends of more than five per cent. upon the paid-in capital cannot be declared until the expenses of the company's organization have been fully liquidated.

Supervising power is reserved to the government by the statutes touching the question of the dissolution of a company, the winding up of its business and securing the performance of its policy contracts, and its consent is necessary for the transfer of the business of one company to another or to the entering into a re-insurance contract of all its business with another company. Government supervision extends in general to securing the exact observance of all legal and statutory requirements as well as those conditions on which may depend the due fulfillment of the obligations of the company. Government supervision, therefore, takes cognizance of the re-insurance reserve, the lawful investment of assets, as well as the complete, accurate and clearest possible presentation of every item of the financial statement and balance sheet. The re-insurance reserve is required to be equal to the pro rata premium for the unexpired time of each policy, less commission, but in no event must it be less than forty per cent. of the premiums under running policies. With a native company, the investment of funds must be definitely provided for in its by-laws, which must conform to certain statutory require-

ments. In general, touching the investment of funds, consideration is required to be given to those securities which can be immediately realized. The general insurance laws specify the securities which are deemed suitable for investing the re-insurance reserve in, which are declared to be domestic collateral securities, government loans, productive real estate, if it be not encumbered for more than one-third of its purchase price, mortgages of the kind in which wards' and orphans' funds may be legally invested, saving bank deposits, etc. The annual statement must be presented in a certain prescribed form showing the assets and liabilities in detail and must be published in certain specified journals. The capital stock of the company which is authorized, but has not been subscribed for, must not appear in the statement. The assets must be entered at their market value at the time of making up the statement. Funds to cover the fluctuations of investments must not be credited except for the purposes for which they are held, without the approval of the supervising authority. The reserve for losses, and special reserves as provided for by the decisions of the directors at the company's general meetings are to be included in the annual statement; the names of debtors and creditors are required to be given, and under the head of "debtors" may only appear claims resulting from the

legitimate conduct of their business. Separate from them must appear claims against agents and branch offices.

Foreign companies are required to render statements for their aggregate and for their Austrian business separately, which must include a specification of such securities as are held in Austria for the special protection of Austrian insurers. The supervising officers of the government are authorized at any time to demand such explanations of the statements rendered as they may call for, and are likewise empowered to make an inspection of the books of the company or agency. In an examination of the business of foreign companies it is provided that their Austrian business shall be treated in the same manner precisely as that of the Austrian companies.

The Minister of the Interior issues periodically official publications showing the financial condition of the insurance companies respectively transacting business in the empire. All insurance agents must receive certificates of their appointment and must exhibit same to the proper government officials on demand.

HUNGARY.

In Hungary, up to the present time, no special license is required for the formation of an insur-

ance company, but the appropriate provisions of the commercial code must be observed. There is, however, now under consideration a bill to regulate insurance companies, according to which such companies are required to conform to special requirements aside from the conditions laid down in the commercial code. This bill provides that all companies must have a paid-up insurance fund of 300,000 gulden for each branch, and must set aside at least 10 per cent. of the annual net profits for the formation of a surplus reserve fund. Within four months after the close of the fiscal year the minutes of the general meeting and the annual statement must be filed with the government official. Foreign companies are required to invest their re-insurance reserve on Hungarian business in Hungary and keep it so invested during the time they continue to transact business there, and until their obligations in Hungary are completely satisfied. The bill provides likewise for a Government Insurance Department, which will issue licenses and will have control and supervision of insurance reserves, annual statements, etc. The bill further provides that directors of domestic companies and the representatives of foreign companies also shall be liable to a fine of from 100 to 5,000 gulden for each breach of the law, but an appeal to the Minister of Commerce is permitted. This bill still lies

before the Legislature, and it is by no means certain that its passage will be secured without important amendment.

There are nine stock and seventeen mutual companies in Austria-Hungary, and, in addition, there are numerous associations engaged in the manufacture of sugar, paper and mining, the members of which respectively protect their interests by a system of mutual insurance. There are also in Austria local or district fire insurance associations which are called "Bauerverein" (Peasant Societies). At the close of 1893 there were 296 of these associations in Austria, nineteen of which were organized during the years 1889-93. Twenty-three in that time went out of business. The remaining mutual institutions are strong and well managed. The domestic companies have but little foreign competition. In Austria only three foreign companies are operating. In Hungary no foreign company transacts business. The Austrian Sugar Refineries Association has been successfully managed. It includes 235 sugar refining companies of the Austrian Monarchy. The association retains only a small proportion of its business for its own account, and give the greater part of it by way of re-insurance to two Austrian companies. The associations engaged in mining and paper making distribute their entire insurance among the stock

companies, acting as agents only, and as such receiving the commissions.

The condition of the fire insurance business in Austria is not particularly encouraging, nor is the field at all inviting. The profit is small, rates of premium are low, and losses, especially on agricultural property, are numerous. Conflagrations in country towns and villages, resulting from thatched or other combustible roofs and the inadequate means at hand for fighting fire, are not infrequent, especially in Galicia. In Hungary conflagrations have greatly decreased of late, in consequence of the preventive measures adopted by the local authorities. The insuring of manufacturing risks, aside from those written by the nine stock fire insurance companies, is controlled chiefly by fifteen mutual companies. Under agreement with the stock companies these mutual companies are required to cede, by way of re-insurance, one-fifteenth part of each and every risk taken to each of the nine stock companies, they being at liberty to retain the remaining six-fifteenths for themselves, or dispose of it in any other way they please.

The Austrian companies have a Tariff Association, known as the "Concordat," which has existed uninterruptedly for more than thirty years. To this association belong the most important Austrian and Hungarian stock fire insurance com-

panies, as well as such foreign companies as are transacting business there. The stock and mutual companies, as well as the large beet sugar and other unions, charge substantially identical rates of premium. Certain of the companies issue policies of insurance for a period of years, taking notes in part payment thereof. Others issue policies for a specified number of years, but which provide for an annual payment of the premium, a reduction being made proportionate to the term of the contract: thus, for a five years' insurance four annual premiums are charged; for a ten-year policy, eight annual premiums. Another method of premium payment prevails, chiefly under policies covering manufactories, especially steam mills, in the kingdom of Hungary. It consists in the issuing of five-year policy contracts under which a part of the premium is paid on the delivery of the policy, a further portion in two instalments in the second year, and the balance, as a rule, during the first half of the third year.

The Austrian tax laws provide that a stock company shall pay ten per cent. of its realized profits by way of income tax, but the profits being small this tax does not in the average exceed one-half of one per cent. of the annual net premiums. Stock companies which distribute more than ten per cent. in dividends have to pay an additional two per

cent. upon their profits ; those paying from eleven to fifteen per cent. in dividends, four per cent. additional. With mutual insurance companies the tax is one-tenth of one per cent. of the annual net premiums. Besides the income tax the Austrian Treasury requires the affixing of a fifty kreutzer stamp (about twenty cents) to every policy. By the law of December 18, 1882, fire insurance companies, both native and foreign, are assessed two per cent. upon their gross premium receipts on their Vienna business, as a contribution for the support of the local fire departments. The Common Council has recently ordered an increase of this amount to twenty per cent., to be made from January 1, 1898, against which a protest has already been raised, but no action has thus far been taken.

BULGARIA AND ROUMANIA.

In Bulgaria and Roumania no government department or official is specially charged with the supervision of insurance, nor do the laws require any return of business transacted. Insurance legislation follows the model of similar enactments in Austria, but the regulations are enforced more rigorously in these countries.

Fire insurance companies are operating under the commercial law enacted in 1887, which contains



several special stipulations concerning insurance companies.

There is no law fixing the minimum amount of subscribed capital applicable to native companies, but foreign companies are compelled to deposit a minimum amount of Lei 300,000 (about \$60,000).

Foreign companies are also required to secure a government concession, after obtaining which they can transact business on the same footing as native companies.

Fire insurance is not undertaken by the government or by any municipality in Bulgaria and Roumania. Nor do the laws require inquests after fires.

Fire policies have to pay a stamp duty of one-half per cent. on the premiums, and there is also a trade and income tax. The particulars furnished in regard to taxation in these countries are quite meagre. Companies are not compelled, however, to contribute to the support of fire brigades.

In Roumania, the "Dacia Romania," "Nationala" and "Generala" have a common tariff. The mutual company "Unirea" has a separate tariff of its own, the rates of which are lower. In Bulgaria the native companies have no common tariff.

The business of insurance is conducted mainly through local agents; only in exceptional cases is it done direct with the offices.

Agents' commission does not exceed fifteen per cent. In a very few cases the insured may receive a commission amounting to as much as ten per cent. But the agents frequently give away a portion of the commission allowed to them.

Nearly all simple risks are written on one or other of the following systems: 1. Annual policies; 2. Seven-year policies, with annual payments of premium; 3. Five-year policies, granted on prepayment of four years' premium. In the case of seven-year policies, when the payments have been kept up for six years, the seventh year is free. Farm produce is insured under policies for one, two or three months.

Short-period policies are issued at the following proportions of the annual rate: Six months, two-thirds; three months and under, two-fifths.

The co-insurance clause is invariably enforced in all cases of under insurance; scarcely an instance to the contrary is to be met with.

Tenant's and neighbor's risks are not insured against.

Losses are settled by the company's own experts, with the aid, when necessary, of skilled assistance from outside. When several companies are interested, the usual practice is to appoint a committee of two or three officials who operate jointly.

SERVIA.

In Servia, fire insurance is governed, as in Austria, by an ordinance issued by the government, but there is no insurance department or state official specially charged with insurance supervision.

Foreign companies are obliged to own real estate in the kingdom to a minimum value of 150,000 dinars, or, say, about \$30,000 each, and to deposit twenty per cent, of their premium reserve with the State authorities. Otherwise, they operate under the same regulations as native companies. Balance sheets and business returns must be presented annually.

A trade and income tax and a stamp duty on premiums are payable, but insurance companies are not required by law to contribute to the support of fire departments. There is no government or municipal insurance.

The business of fire insurance is conducted mainly through agencies, who correspond with the head offices or with the branch offices at Belgrade.

The agents' commission is fifteen per cent. on non-hazardous risks, and from ten to fifteen per cent. on specials. Commission is not usually allowed to the assured.

Fire insurances are usually effected for periods

of one, five or ten years, with rebates in the two latter cases of ten per cent. and twenty per cent. respectively, when an undertaking is given that the policy will be continued for the full term. Larger rebates are made when the premiums for several years are prepaid.

The co-insurance clause inserted in fire policies reads as follows: "If the insured property is, at the time of a fire, of greater value than the amount insured thereon, the loss will be made good in the ratio in which such greater value stands to the sum insured. If the company has only insured a fixed share of the value as declared for insurance, it will only make an equivalent share of the loss as adjusted. If the property is also insured elsewhere, with the knowledge and approval of the company, the latter will make good the loss in the ratio borne by the aggregate of the other insurances to the amount hereby insured.

Occasionally, offices grant what are called "First Fire" insurances, without average, but at largely increased rates.

Liability for damage to neighbor's or landlord's property is not insured against.

As to tariff associations, there is only a working agreement between one British and one Austrian company for the rating of risks, but the only native company, the "Sadruka," founded in 1887,

with a capital of 300,000 dinars, or, say, \$80,000, is not a party thereto.

Each office in Servia has a special staff of its own for the settlement of losses, but technical assistance from outside is freely employed.

Official fire inquests are held, and offices may decline to settle claims until the assured produces a certificate delivered by the police authorities to the effect that no blame attaches to him.

RUSSIA.

In Russia stock companies have the right to conduct one or more branches of insurance upon the condition that each one of these branches shall be protected by a fully paid-up capital of at least 500,000 roubles, about \$255,000. Until the surplus, less the premium reserve, amounts to one-third of the original capital dividends must not exceed seven per cent., and until the expenses of organization are liquidated they must not exceed six per cent.

The fire insurance contract is regulated by the statutes of the companies, which must be approved by the Imperial Government. They contain the general rules for the issuance of policies, settlement of losses, etc. The statutes of the various companies practically agree in their main provisions.

Fire insurance companies come under no special law as such, but they are subject to the control of a government department known as the assurance committee, under the jurisdiction of the Minister of the Interior. This committee is composed of the director of the department, as chairman, and two associates from the Finance Ministry.

The application of managers of insurance companies for the authorization of the assurance committee is responded to by the issuance of an approval. The business is conducted through a special division of the Department of the Interior. The expenses of establishing this official control are paid by a tax levied upon the total sum of premium receipts of all the companies, the limit of which is fixed legally every three years.

The supervision of the assurance committee extends to all insurance institutions, whether government or municipal, stock or mutual, native or foreign. It applies to the enforcement of the observance of legal and statutory requirements by the companies, likewise to the measures for regulating investments. Its jurisdiction includes particularly the giving of requisite instructions to government or municipal mutual insurance companies, the examination of complaints, ordering revisions and revising orders issued by local authorities touching the acceptance of risks on build-

ings. As to private insurance companies, the business of the assurance committee involves the approval of proposed by-laws at the organization of companies, the amendments of their statutory provisions and also their policy conditions. The examination for such approval covers the limitation of the probable expense of organization, which is to be taken out of the original capital, as well as the method of liquidating the same ; they must not expend more than ten per cent. of their original capital in effecting their organization and they must liquidate the amount in the course of ten years at the most. Fire insurance companies must also put aside a reserve of not less than forty per cent. of their premium income. The assurance committee establishes the forms for statement blanks, balance sheets and statistical compilations which insurance companies are required to furnish every year to the department. It assumes the oversight and examination of these statements, etc.; causes the revision of business rules in accordance with its own judgment, the desire of the stockholders or the assured ; orders the retirement of insurance companies in cases provided for in the statutes, and takes part in the subsequent liquidation.

When the losses reach a certain limit fixed by the statutes of the company, or when the original

capital has decreased two-fifths, the assurance committee demands the call of a general meeting within a week to decide upon restoring the impaired capital. If the restoration is not made within three months cessation of activity is ordered and discontinuance announced.

The liquidation of a company is effected through a commission, selected by a general meeting of the stockholders, under the supervision of a person appointed by the Minister of the Interior. After the expiration of one year these liquidators have to furnish an account of their labors accompanied by a detailed financial statement. If it then appears that the company is insolvent, the fact is immediately brought to the attention of the court, and legal proceedings are begun to wind up its affairs. When the insolvency is judicially announced the Minister of the Interior orders the final liquidation in conjunction with the Ministers of Finance and Justice. A newly chosen liquidating commission concludes the winding up of the company.

Insurance supervision in Russia includes the approval of agency appointments. Agents may also be removed by the assurance committee.

The Russian national government does not undertake fire insurance, but many municipalities do, and there are various associations of agricul-

turists which conduct a form of mutual insurance. The nearest approach to national government insurance is found in the Russian Reinsurance Company, which began business in January, 1896, having been organized, upon negotiations of the Minister of Finance with the managers of the Russian stock insurance companies, for the purpose of decreasing the re-insurance with foreigners. Every year, up to that time, as the native insurance companies did not divide large risks with one another, two thirds of the premiums received from Russian fire insurance were given over to foreigners. The company was organized with an original capital of 6,000,000 roubles, or about \$3,060,000, of which one-half was paid in by eleven native stock companies, while the other half was taken over by private individuals. The nominal price of the share was established at 500 roubles and the issuing price at 600 roubles, thus providing a surplus of 100 roubles from each share, the amount of which was invested for the formation of a reserve.

The plan of the company contemplated also the mutual re-insurance of fire risks among the native stock companies. Since it began business the Russian fire insurance companies have been obliged to cover sixty per cent. of their excess business by division with the Russian Reinsurance Company

and among themselves, and only forty per cent. in foreign companies.

As was anticipated, the so-called national system has not justified its existence. Already, after the lapse of only two years very fruitful in losses, the foreigner has again taken precedence, and his portion of the re-insurance must be increased from forty to fifty per cent. The business results of the National Reinsurance Company have also been very unsatisfactory. However, an "All Russian Reinsurance Company" for mutual companies is to be organized in Moscow with a capital of 5,000,000 roubles.

Aside from the aforesaid National Russian Reinsurance Company there are thirteen native stock fire insurance companies. There are not fewer than 136 mutual institutions. There are also seventy-three municipal, thirty-four provincial and twenty-nine state concerns. Of the seventy-three municipal institutions forty-three accept risks on buildings only, and thirty take also insurance on household furniture and other contents.

There is still to be mentioned the "Kjewer" association, for the insurance of sugar factories, nearly all of whose risks are given in re-insurance. The premium receipts of its business in the year 1896 amounted to 456,127 roubles, or about \$232,625; its losses were only 8,061 roubles, or about

\$4,131 ; its surplus aggregated 500,000 roubles—\$255,000, and it also had a special reserve of 95,778 roubles—\$48,846.

No foreign fire insurance company operates in Russia direct, but, as already noticed, foreign companies do a large business by re-insurance. They are permitted to transact business upon the same terms as native companies, but are obliged to deposit the amount of 500,000 roubles, together with their premium reserve, in the State bank, except in Finland, where the laws are quite different, and foreign companies are allowed to operate without making any deposit.

Since wooden buildings everywhere predominate, even in the large cities, and the manifold fire extinguishing contrivances being defective, numerous fires occur by which whole villages, small cities and whole sections of large cities are destroyed ; these happen especially in the western Provinces, where there are many mercantile establishments and thickly populated settlements. In the summer and autumn the greatest number of fires occur. The years 1896 and 1897 were especially fruitful in losses for the insurance companies.

The ordinary insurance conditions of Russian private fire insurance companies contain nothing opposed to the principle that insurances should lead to no profit to the assured. Worthy of men-

tion is the practice of requiring the applicant for insurance to leave a deposit, for which receipt is given, as security for any disbursements which may be necessitated before the completion of the transaction. Buildings and machinery are insured at such value as the owner may place upon them ; nevertheless, the value on the day of the fire is the sole standard of reckoning indemnity. Indirect loss is not insured against in Russia, as the law does not create any liability in respect of neighbors' property. In Poland, however, the Code Napoleon is in force. Mortgage creditors can have their claims secured by an appropriate clause in the policy.

According to the policy conditions, the party whose property may be damaged by fire is obliged, on demand, to furnish a sworn statement that the fire occurred without his fault, and the payment of the indemnity can be refused in case the assured is judicially under suspicion of arson or of fraud, until he is acquitted. There is no special law relating to fire inquests. The duty of inquiring into the causes of fires devolves upon the police, without whose authority no loss payment can be made.

Insurance offices are not compelled to contribute to the maintenance of fire brigades, but in many instances they do so voluntarily.

A general tariff of rates prevails, which is drawn

up and promulgated by a committee of the Russian fire insurance companies. Agricultural risks in Poland are governed by a special tariff. Business is done through the medium of local agents, also with offices direct. The companies allow their agents ten to fifteen per cent. commission, any rebate of which is prohibited by tariff rules.

Policies are generally issued for one year and are renewable annually. Sometimes, however, the insurance is effected for three, five or ten years, with a discount for prepayment of premiums. Poland is the only district where ten-year policies are issued with the premium payable annually. The co-insurance clause is not obligatory, and is usually enforced on hazardous risks only, such as saw mills, flour mills, etc. It has been in use in Russian offices for about twenty years.

Losses are generally adjusted by specially appointed professional assessors. Small risks are usually adjusted by the agents.

Fire insurance companies are taxed at the rate of fifty copecks on every 1,000 roubles of the sum insured, but the tax must not exceed twenty per cent. of the premium.

The fourteen Russian stock fire insurance companies, including the Russian Re-insurance Company, with an aggregate capital of \$15,136,800, received in the year 1896 gross premiums amounting

to \$26,894,963, of which they retained for their own account \$13,907,969. They paid for losses on their own account, including reserves, \$7,620,869. Their surplus on January 1, 1896, was reported to be \$6,122,517; on January 1, 1897, \$7,098,905. They carried over a surplus of fire insurance reserves as follows: From the losses of previous years of \$72,810, and from the premiums of the year 1895, \$3,664,554. The premium reserve upon 1897 aggregated \$6,240,730. Their interest receipts upon investments, including differences in value, amounted to \$1,240,505. The business of the year showed a net insurance profit of \$245,590. The total net expense account amounted to \$3,538,114.

NORWAY.

Up to the present time no law has been enacted specially applying to the business of insurance in Norway; such as there is embraces an old decree of May 15, 1810, the insufficiency of which was recognized by a law of August 9, 1839. In this law those companies received some special prerogatives which had sought and obtained a royal license. This license is not required imperatively. Under date of January 8, 1881, a Commission was appointed to attempt to remedy the difficulties by legislation. This Commission presented on the 3d of May, 1894, the draft of a law concerning stock

companies generally, and on the 23d of December, 1895, the draft of a law relating to insurance companies particularly. The bill has not yet passed in the Storting. Probably it will be approved this year. The purpose of the bill in the main is to uphold the principle of freedom in the transaction of insurance. A concession is not even to be insisted on in Norway. There is only the entry of a permit to do business to be made in the Commercial Register, and in order to bring this about definite information and proofs of solvency of the company must be furnished. The insurance department is to consist of three associate officials, but none of these may possess stock of any of the insurance companies, or be a member of the board of directors or of the business management of such company. The cost of the government supervision is to be met by a tax which must not exceed two per cent. of the annual gross income. All publications relating to companies are to be paid for by the companies concerned. For the preparation of the financial statement the bill sets forth certain normal prescriptions. The statement must be furnished at least once a year, and within six months after the close of the fiscal year. Publication follows after its examination by the insurance department at the expense of the company. Separate accounts must be presented for the different branches, and

also for the Norwegian and for the foreign business. Besides, the premium reserve must be maintained for at least one-third of the total premiums received and in force without deduction of expenses. The law contains requirements concerning the limitations of the original capital in the organizing of companies, also concerning the fixing of the limit of the amount of insurance of mutual companies without guarantee funds and concerning liquidation.

Foreign companies must appoint a fully authorized representative, who is accountable to the supervising authorities, and who has to represent the company for service of process. The deposit for the security of Norwegian policy-holders must not be less than 50,000 crowns nor more than 100,000 crowns (\$13,400 to \$26,800).

The eight Norwegian stock fire insurance companies received in the year 1896 gross premiums of 2,299,515 crowns and paid for re-insurance 1,268,933 crowns. In addition to their net premium income of 1,030,582 crowns, about \$276,195, they received for interest and from other sources the sum of 414,977 crowns, about \$111,214. The net amount of losses were 581,261 crowns, about \$155,778, and of commission and expenses 306,650 crowns, about \$82,182. The total profit for the year was 557,648 crowns, or about \$149,449, and the underwriting profit 142,671 crowns, or \$38,235.

A government institution for insurance of buildings against fire has existed for years in Norway. At the close of the year 1896 buildings were insured in the country for the amount of 990,500,000 crowns (\$265,454,000), or 44,000,000 crowns (\$11,792,000) more than in the year 1895. Of this sum 600,000,000 crowns were in the cities and 390,500,000 in the country. The capital city, Christiania, alone represented about one-fourth of the insurance amount of the entire kingdom, and over five-twelfths of that of the Norwegian cities.

Formerly many disastrous fires, consuming entire villages occurred in Norway. In recent years the country has been spared such calamities, until 1897, when a relapse occurred. These great fires prevail because of the light construction of buildings, the high winds and the inadequacy of the means of fighting fires.

The ordinary insurance conditions in Norwegian policies do not differ in their essential points from those in use in Germany. Insurance against loss of rent prevails.

Taxes bear heavily upon the business of insurance. They comprise now more than one-quarter of the expense account. In 1897 3.97 per cent. of the income and one-third of one per cent. of the assets were demanded as government tax, added to which there were local imposts of 11.27 per cent.

The income of a foreign company is appraised, and ten times the amount thereof is assumed to be its assets.

The Norwegian Tariff Association is formed of the native and foreign companies operating in Norway, and extends over all Norway and comprises the entire ordinary and commercial business. The commission is fifteen per cent., of which the sub-agent receives ten per cent.

SWEDEN.

In Sweden there is no government department devoted exclusively to insurance supervision, nor any complete code of statutory requirements. The royal sanction for the passage of a new law regarding stock companies was given in 1895, and efforts have since been made to perfect a plan for a code of laws covering the entire subject, but so far without result. State supervision is, however, exercised to a limited extent through the Civil Department of the kingdom.

A royal decree of October 22, 1886, requires domestic insurance companies to prepare a statement and balance sheet according to prescribed forms, and to present them to the Civil Department; also, to publish these statements and to hold the books and papers of their business accessible to the official in that department charged

with looking after insurance affairs, or to a specially designated state official. This law also requires every foreign company to have one fully authorized general manager in Sweden, who has to obtain a license from the governor of the province in which he is located, submitting to that official his power of attorney and a copy of the by-laws of his company. The license has to be published in a newspaper. If for any reason authority to represent the company is annulled without the appointment of a new general manager, the governor names a reliable person to act until the installation of his successor. No company is permitted to have more than one general manager, but the manager may appoint several sub-agents. The general manager is required to notify the governor of every amendment or change made in the company's by-laws; to submit to the proper official in the Civil Department his books on demand, and also to present, annually, a balance sheet and business statement on prescribed forms. If an alien company has not supplied its manager with the necessary funds to pay a loss within three months after the maturity of a claim, he must communicate the fact to the governor; and he must also give immediate notice if, through fault of the parent company, he cannot forward amendments made in by-laws or copies of his balance sheet and business

statement. Fines ranging from \$5 to \$130 are imposed for breach of these requirements.

Taxes are levied upon insurance companies in Sweden in the same manner as they are upon every other company or private person in the kingdom. They usually amount to one per cent. of the profit of the foregoing year. By a special resolution of the Diet, this tax may, however, be increased to one and one-half or two per cent. Besides this tax, foreign companies have to pay a small stamp fee for each policy issued.

There are five native stock fire insurance companies in Sweden, with an aggregate paid up capital of \$2,760,000. In 1896 their assets amounted to \$26,129,171, and their liabilities to \$21,698,124.

There are also twelve large mutual companies, of which only six transact business throughout the kingdom, while three more limit their field to one province, and the others include in their operations only single provinces or cities. The number of small mutual concerns or unions is 360.

In the year 1895 seventeen foreign fire insurance companies operated in Sweden, among them twelve British and two German.

The bulk of the business remains in the hands of the Swedish stock companies, and next to them rank the domestic mutuals.

The control of insurance by means of State super-

vision is leniently conducted and does not fetter the freedom of action of the solid insurance institutions.

Commissions are generally fifteen per cent., of which ten per cent. goes to the sub-agent.

The Swedish-Norwegian Tariff Association includes the entire area of the two kingdoms and conducts the convention in a formal and systematic manner. The two German companies do not belong to the association, but are guided by the Swedish tariff.

The general insurance conditions do not differ in substance from those in Germany.

In the "fire regulations" for the towns of the kingdom it is stipulated that an inquest shall be made by the magistrate or the police office after each fire, in order to ascertain the origin of the fire. These regulations are applicable not only to all cities and towns in the kingdom, but also to all boroughs, harbors, fishing places and other places with any considerable population, should the attending circumstances seem to render such an inquiry necessary. If a fire occur in the country districts such inquest is not obligatory under the laws, but the insurance companies have stipulated in their policy conditions that they shall have the right to demand an inquest and a report of the findings before the claim shall be payable.

The aggregate receipts of the five Swedish fire insurance companies in the year 1896 were : Premiums, \$3,190,508 ; interest, \$78,662 ; other receipts, \$230,352. Their total expenditures were : Gross fire losses, \$1,773,767, of which were distributed for re-insurance, \$954,416 and for own account, \$819,351 ; expenses, \$213,041 ; commissions, \$540,064.

The leading mutual concerns received in the same year \$628,465 in premiums, and paid \$200,406 in losses and \$135,927 in expenses.

DENMARK.

There are no special statutory requirements for the organization and admission of fire insurance companies in Denmark. No insurance department exists. A deposit is not even demanded of foreign companies.

Concerning the ordinary insurance conditions of Danish policies there is nothing worthy of remark. In their principal points they do not differ from the Swedish and German conditions.

In addition to ordinary insurance against fire risk on buildings and their contents, insurance against loss of rent has been written by the "Kjöbenhavns Brandforsikring" (Copenhagen Fire Insurance Company), a mutual institution, for its members since January 1, 1896, and has afforded satisfactory results. The contract is made in a

special policy and has for its object indemnity for loss of house rent in consequence of fire or explosion in insured buildings. The sum insured is, as a rule, limited to the amount of the annual income from the rents for one year, but if the building concerned is specially large the insurance is permitted up to the amount of two annual rentals. Loss of rent applies only in cases where the insured building is damaged wholly or in part so that it cannot be used for the purposes intended before the fire. The assured is required to make affidavit as to the amount of the rent. If the rent ascertained is greater than the sum insured the loss is reckoned pro rata. In all other cases the rent actually receivable, without regard to the sum insured, serves as the basis of adjustment.

A tariff association has existed in Denmark since 1896. It confines its ratings chiefly to Copenhagen and the suburb of Fredericksburg, and beyond these to factories, stocks and large warehouses only. Not fewer than forty-eight companies belong to the association. The agreement is signed for a definite time and can be annulled by any company on six months' notice. No representative of a tariff company is allowed to represent a non-tariff company.

Business in Denmark is written mainly through agents. The commission is seventeen and one-half per cent., of which sub-agents receive ten per cent.

To all policies written in Denmark a paper stamp or a stamp impression must be affixed. Insurance policies for amounts under 1,000 crowns, about \$270, are stamp free ; for amounts above 1,000 crowns the stamp differs in value for one year and for more than one year, and also according to the sum insured. For sums of 1,000 to 2,000 crowns the stamp tax is five öre, about one and one-third cents, for one year, and fifteen öre, about four cents, for more than one year ; for sums of 2,000 to 10,000 crowns insurance, fifteen öre, or about four cents, for one year ; thirty öre, about eight cents, for more than one year, and the tax increases after that with every 10,000 crowns about fifteen to twenty öre for one year and thirty to thirty-five öre for more than one year.

The four leading Danish fire insurance companies, two of which are stock companies with a paid-up capital of \$281,400 had, in 1896, a premium income aggregating \$1,198,727. They received from interest and rent and profits of exchange \$52,427, and from other sources \$8,849. Their disbursements were for losses, less re-insurances, \$984,889 ; for commissions and management expenses, \$225,210, and for other expenses, \$9,788. Their funds, other than share capital, aggregated \$1,323,900. The dividends of the two stock companies were, in one case, thirty-one per cent., and in another six per cent.

THE NETHERLANDS.

There are no statutory requirements for the organization of insurance companies in this kingdom. There is neither a minimum capital prescribed nor a financial statement to be published. In order to be recognized before the courts of Holland as domiciled companies, they must acquire the rights of domestic partnership, which will be conferred upon them by the sovereign when the by-laws of the company do not conflict with the commercial code of Holland. With the exception of the "Netherlands," a company which has established a United States branch, with headquarters in the city of New York, there is no domestic company of strong financial standing. There are seventy-seven companies in all, mostly small, of which twelve have their home offices in the Island of Java. The fire companies generally avoid giving publicity to their statements, but while the resources of most of them are exceedingly limited, as has been stated, insolvency is of rare occurrence. The financial weakness of the native companies and the diminutive scale on which they work have aided the British, German and French companies in securing an unusually large share of the business for themselves.

A peculiar practice in issuing policies exists in

this country. Instead of issuing a separate policy by each company, a general policy blank is used. The companies, by their officers or agents in Amsterdam and Rotterdam, appear on the bourse during the business hours of the day for the purpose of receiving offers of insurance from property owners direct or from brokers, for such insurance protection as may be needed. A policy blank is presented to them, and upon this blank is written the amount which each company will accept of the line which may be required, so that no matter how large the amount may be the assured receives but one policy. The conditions of these bourse policies differ from the insurance contract generally used in other countries, since they cover losses resulting from war, rebellion, riot or earthquake, as well as from fire. The descriptions of the risk written are generally exceedingly vague, and the value of the property insured is admitted without any previous ascertainment of what it is, the companies relying upon the honesty and good faith of the parties with whom they deal. The adjustment of a loss is usually left to the first two or three companies whose names appear upon the policy, and the broker placing the insurance is commonly employed to adjust the loss. If no agreement can be reached, the question of difference is referred to an arbitrator. Provision is made in the law for an

investigation by the police of the origin of such fires as may happen, and fraud, or attempted fraud, being condemned by public sentiment, is generally punished. There is no tariff of rates, this question being left to the individual judgment of the companies.

Taxation is based upon the net profits, estimated at ten per cent. of the net premium income, upon which a tax is levied of two and one-half per cent. With companies whose net profits are not known to the government official, an estimate is made of the amount on the basis of ten per cent. of the supposed premium income derived in the country, and upon that amount the tax of two and one-half per cent. is charged.

GERMANY.

While the business of fire insurance and the regulation of it is subject to imperial legislation, no federal code of insurance laws has yet been enacted. Such a code is now receiving the consideration of the Diet, and in due time will probably be adopted. Meanwhile, each of the several States prescribes the conditions upon which the business may be carried on within its limits, the laws differing widely in their scope and purpose.

In nearly all of the German States insurance companies require a government concession as a pre-

requisite to their admission, exceptions to this rule being made, however, in the Hanseatic cities of Hamburg, Bremen and Lubeck, where complete liberty to carry on the business unimpeded is freely accorded to all, except that in Bremen a government permit is necessary for the insuring of buildings. This permit is not alone applicable to companies alien to the country, but applies equally to those of the other States comprised in the empire. The concession by its terms is generally revocable at the will of the authorities of the State granting it, and binds the company receiving it to a strict observance of all the existing legal and ministerial prescriptions. No difference whatever is made between home and foreign companies, but the latter are required :

First.—To designate a place within the State as the legal residence of the company, and to appoint at such place a general or principal agent, who shall be empowered to represent the company in its relations with the government and with the insured, and who shall be responsible for the business transacted.

Second.—To agree to be amenable to the jurisdiction of the Courts in the State where the general agency is established, and to submit to the State authorities for their approval their deeds of settlement and by-laws under which their business

is conducted for the approval of the officials of such State.

No deposit is required to be made either with the imperial or the State governments, although some of the States have reserved the right to demand a bond if same should be regarded as necessary for the protection of property owners. A modified system of supervision is exercised in each of the German States by the government officials of such States. In Wurtemberg all companies are subject to the supervision of a government commissioner, to whom the general agents of all companies are required upon demand to submit their books for his inspection and examination, and are required to supply him with any information which he may need regarding the detail of the administration of their business, the expenses of this government inspection being borne by the companies. In Saxony the supervision of the business of insurance is intrusted to an intermediate Court known as the "Fire Insurance Chamber," whose authority, however, is not as far-reaching as that granted to the commissioner in Wurtemberg. For the rest of the States, supervision is limited to the examination of the reports which are required to be presented yearly in nearly all of the States to certain designated officials in such States respectively. These

reports, for the most part, are required to contain a synopsis of the business transacted during the previous year, a brief summary only being required. In Prussia, however, the companies are required to file with the supervising authorities a profit and loss account, balance sheet and an annual report containing a synopsis of the business transacted—the same to be rendered within six months after the close of the year's business—and are required to publish a profit and loss account, and likewise a balance sheet, in the imperial as well as in the State official paper designated for that purpose. In making up the profit and loss account the following among other rules are prescribed :

First.—The unearned premium fund must be calculated pro rata, from which may be deducted the commission paid ratably for the unexpired time the policies have to run, but only such premium receipts shall be included under policies which have already attached during the period over which the account extends. The statement, besides containing a summary of the business, must also show in detail resisted claims, expenses allowed for salary, traveling, etc., the commission paid and likewise a list of the real estate and other securities owned by the company. In brief, the requirements of the statements are

very similar to those which exist in the United States at the present time.

The development of the fire insurance business in Germany has brought into existence various classes of associations widely different in their characteristics. Prominent among these are the so-called Public Fire Societies, founded with government help in various States for the most part during the last century with the object of suppressing mendicity in consequence of loss by fire. They are based upon mutual principles and insure real estate almost exclusively. They enjoy certain privileges, such as exemption from contribution for stamps, perquisites and taxes. They also have authority to collect arrears of assessments by execution and may use government and municipal functionaries in their service. In many of the smaller States they possess the exclusive privilege of insuring immovables, and in some States insurance of all buildings, with few exceptions, in these institutions is obligatory. In Prussia the field of operation of one of these Public Fire Societies is usually circumscribed by the bounds of a single province or only a part of the same. Formerly membership in these societies was also compulsory, but now in the old provinces of Prussia absolute liberty of insurance prevails, except in a few towns where all buildings must

still be insured in the existing municipal associations. In the newly annexed provinces of Prussia (Hanover, Nassau, etc.), however, where the legislation existing before annexation has remained in force, compulsory insurance of all buildings in public associations still prevails. Besides the insurance of real estate, some of the Prussian associations also insure movable property, but in this regard they do not enjoy any special privileges.

The private insurance institutions are either mutual or based upon stock. Few of the former are of any importance, though there are many small unions having limited fields of activity.

Besides the foregoing, there are twenty-nine joint stock companies which transact fire insurance business either exclusively or in connection with other branches of insurance. According to the Prussian Joint Stock Companies Act of July 16, 1884, the shares of stock insurance companies must amount to at least 1,000 marks, or about \$240 each, of which twenty-five per cent. must be paid up. When a fire insurance company is established the Minister of the Interior, who has the granting of the concession, is also empowered to fix the limit of the capital. In common with all kinds of joint stock companies, stock fire insurance

companies are required to pay a provincial income tax and a municipal tax, both on a sliding scale, based upon the balance of income derived from all sources, and a trading tax based upon the profit earned from actual insurance business. The Aachen and Munich Insurance Company, for example, on a balance of 1,940,187 marks for 1897, paid 72,393 marks, or, roughly, three and one-half per cent. In Prussia the companies are not subject to any other imposts except the general taxes, but in some of the other States, as in Saxony and in some of the small Thuringian States, in Mecklenburg, etc., they are required to contribute to the improvement of fire extinguishing apparatus; and in Bavaria a "competition tax" is levied to support the inspection of risks on contents. These taxes are assessed at a fixed rate, generally upon the total premium income, but sometimes also upon the aggregate insurance written in the State. In Bavaria, for instance, the rate is at present one per cent., which it is now proposed to increase to three per cent., while in Wurtemberg, Anhalt and Saxe-Altenburg it is two per cent. of the premium receipts. In some cases the companies collect the amount of these taxes direct from the assured. In many of the German States there still exists a stamp tax, which, however, in all cases must be borne by the assured.

The business is generally effected through agents, though it is also done direct with offices. The local agents are, however, only intermediaries, and are not empowered to sign policies. The companies are not responsible for the acts of these agents, except in Saxony.

Commissions in the German Empire vary according to the quality of the business, a higher rate being paid for private dwellings than for hazardous risks. The sub-agents, as a rule, receive ten per cent. of the premium, and the district manager or general agent fifteen to seventeen and one-half per cent., or even more. Those offices which form part of the "Verband" or Association of German Fire Insurance Companies are bound by agreement not to make any reduction in rates in favor of guilds, unions or other associations, a heavy penalty being incurred in each case of infringement. As a rule, no commission is paid to the assured.

Generally, insurance is taken for one, five or ten years, at the option of the assured, and the latter term is seldom, if ever, exceeded. In several German States laws exist fixing a limit to the period of insurance, as in Bavaria, where ten years is the limit.

It is the custom in many States to insert a clause in the policy providing for the continuance of the insurance for another period in case notice of dis-

continuance has not been served within a stated number of months before expiration ; but in Bavaria and Baden the insertion of this clause is prohibited. With the Public Fire Societies, on the other hand, the insured has to submit to the rules laid down in the by-laws governing the terms of discontinuance.

While it is the custom of the Public Fire Societies to classify their risks according to the old fashion and to collect for each class a specified premium, the private companies make their rates of premium independently of each other for every risk individually according to its nature. Tariff associations exist only in Alsace-Lorraine, and, for storage risks, in the Hanseatic towns, the Baltic cities and a few inland cities.

Indirect insurance against risks of lessees and danger from neighbors is not practiced in Germany. The provisions of the Code Napoleon touching these liabilities formerly exacted in Alsace-Lorraine are not now recognized in their original form and are no longer enforced in any part of the empire.

Use and occupancy insurance is now prohibited in nearly all the German States. Hamburg, however, is an exception, but even there occupancy insurance is written rarely and only by foreign companies. While the insurance of rent is taken

in Hamburg by a large number of home and foreign companies, it is done only to a limited extent. Ordinarily, this insurance covers the loss of rent to the insured caused by the non-use of one or more parts of the building damaged by fire. Loss of rent is reimbursed during repairs of the premises up to the time of re-renting, not exceeding one year. The premium is calculated upon the number of fire-places in dwellings, and in storage warehouses, according to the number of firms occupying them—construction, use and neighborhood, of course, being considered.

On the other hand, throughout Germany generally, insurance is permitted and effected upon breweries against such indirect damage as is caused, as an immediate consequence of a fire, to their beer stored in their cellars, or malt in the process of fermentation, and consequent loss on stock from disablement of refrigerators in their cellars or the interruption of kilns. For this class of insurance, however, a ministerial decree stipulates that the insured shall carry one-fourth of the risk as a co-insurer.

In Germany each company has its own officials for the adjustment of losses. Fire losses on buildings, machinery, etc., are adjusted by experts. As a rule, the Public Fire Societies allow indemnity on buildings for their reconstruction, and pay-

ments are made in instalments as the re-building progresses. Private companies adjust fire damages upon principles laid down by the "Verband," which are based upon the general conditions of insurance as indicated by the experience of the eighteen companies comprising the Union. Compensation is allowed only for actual damage fixed according to the value of the property at the time of the fire. The insurance itself does not constitute a proof of the existence or value of insured objects at the time of fire, and the amount of the insurance only represents the limit of the liability of the company for indemnification. Numerous and strict requirements are imposed upon the assured. Among others, he is bound to save everything within his power in case of fire, and to serve notice upon the agent within twenty-four hours, and the police board within three days, of the occurrence. He may be required on demand of the company to furnish lists of goods existing at the time of the fire, those burned or lost and those saved, damaged or undamaged, with itemized valuations. If the insured acts in contravention of certain directions, indemnity is forfeited. In the adjustment the company is not bound to deal with anyone but the insured, but differences may be submitted to an umpire satisfactory to both parties. If an umpire cannot be agreed upon, he may

be appointed by the district court of the place in which the fire occurred. The indemnity is to be paid in cash within one month after the total amount has been ascertained, and the company is bound to pay interest from the date of expiration of the above thirty days. Claims for indemnity which have not been recognized in writing by the company or covered by an action before a competent court and notification of the same within six months of the fire, become extinct by the mere lapse of said term.

Mortgage creditors are protected by both public and private insurance companies.

German policies invariably include the co-insurance clause. It generally reads as follows: "If the value of the insured property at the time of the fire exceeds the amount insured thereon, or if the said property is also insured elsewhere, the loss will be made good pro rata."

Thirty stock companies engaged in the fire insurance business in Germany on the thirty-first of December, 1896, possessed subscribed capital aggregating \$39,118,127, of which \$9,233,253 were paid up. The assets of twenty-eight of these companies—of two the amount of their assets was not obtained—aggregated \$78,793,718, and the liabilities of twenty-five, of which the figures were secured, amounted to \$41,148,276.

A resumé of the business of twenty-nine of these companies for a single year, 1896 and 1897 (for a few companies it was not feasible to get their business for the year 1896, so that of 1897 was taken), shows their aggregate reserve for capital \$11,154,699; for re-insurance, \$10,252,506; for losses, \$1,537,374; risks written, \$13,823,148,656;* gross premiums received, \$27,774,623; net premiums, \$14,698,166; net fire losses, \$8,537,261.

FRANCE.

In France insurance companies, as well as all other joint stock companies, may be organized without the special permission of the government. Besides complying with the general rules for the formation of joint stock companies, they are also subject to the requirements of the decree of January 22, 1868. According to this decree, a company is considered established when at least 50,000 francs of the subscribed capital have been paid up.† Mutual companies may be established,

*The amount of risks written was not reported for six companies. In order that the total amount might be approximately correct, I have estimated the figures for the delinquent companies at the average rate of premium for the companies whose figures are given, and have included them in the total amount.

†A company can have unlimited subscribed capital, but it must have paid up at least three-fourths of the amount subscribed, which must not be less than 50,000 francs.

according to the same decree, by an authentic act or by agreement under private seal. By-laws have to be drawn up, and the signers must attest them before a notary. An abstract of the act of establishment must be published in certain designated journals, and copies of these journals and of the act of establishment must be deposited with the civil court at the seat of the head office of the company within three months after the organization.

Stock insurance companies are required to set aside annually twenty per cent. of their profits for the formation of a *r  serve* fund until it amounts to one-fifth of the capital. Mutual companies must maintain a guarantee fund, to which a yearly maximum of contribution is fixed by a tariff, and a reserve adjusted every five years. A maximum for their annual expenses of administration is also fixed by statute. Every policy of a stock company must show the amount of the subscribed and paid-up capital.

The assets of both stock and mutual concerns must be invested in first-class securities, of certain categories prescribed by law, consisting principally of bonds of the public debt, municipal stock and railway shares enjoying a government guarantee.

Foreign companies are permitted to transact busi-

ness in France on the same terms as home companies. They are admitted under a decree of the Ministry, which requires, besides the reciprocity of the respective governments, the appointment of a responsible representative, a citizen of France, who assumes the guarantee for the payment of taxes and the observance of eventual government regulations.

A projected law regarding foreign companies, following principally the chief points of the most recent Austrian requirements, is soon to be submitted to the legislative assembly.

Insurance companies, domestic and foreign, are required to furnish an annual statement to the government showing the total amount of insurance in force and the premiums received, for the purpose of taxation. The registration department is authorized to examine the books of a company, in order to verify the figures given in this return, which comprises the extent of government control and investigation.

In France a stamp tax is charged on policies, certificates of renewal and additions. The companies meet this liability by an annual payment, namely: stock companies of four-tenths franc per thousand and mutuals of three-tenths franc per thousand of the total insurance. Re-insurance is exempt from this annual tax, if paid by the insurer. Avoiding

this tax subjects the offender to a fine of from 500 to 5,000 francs. Companies are also required to pay a registration fee of ten per cent. on the balance of premium income on domestic business after deducting premiums paid for re-insurance. These taxes are invariably charged to and paid by the assured, in addition to the premium stipulated for in the policy. An industrial tax is also imposed upon both mutual and stock companies of 100 francs for each department of France in which the company operates, and they are also required to pay a tax on the value of their general agents' office furniture and fixtures. There is also a stamp tax on shares of one-half of one per cent. payable by companies less than ten years old, and of one per cent. by those of greater age. Upon indorsement and conversion of shares a stamp tax is due of one-half of one per cent. of the value negotiated after deducting the assessment to be paid. Dividends are taxed four per cent. During the fifteen years, from 1879 to 1893, the French joint-stock companies paid to the government taxes, fees and fines amounting to 221,474,040 francs. They paid to their shareholders in the same period 183,922,093 francs.

Up to the present time insurance companies in France have not been compelled by law to con

tributè to the support of fire brigades. A bill has, however, been recently passed in the Chamber of Deputies, and sanctioned by the Senate, by which insurance companies will be required hereafter to pay a tax of six francs per thousand francs insured, for the purpose of providing a superannuation and casualty fund for firemen.

There are no special laws in France relating to fire inquests, yet an inquiry by the police is made into every fire in towns, and in the country districts by the gendarmerie.

The responsibility of a landlord or tenant for any loss or damage by fire, caused by his action or negligence, is a principle enforced by the Code Napoleon, which prevails especially in France and Belgium, and under which the liability for the loss is imposed upon him through whose fault it had been occasioned. Under this law of "Risque Locatif" the presumption is that the fire was caused by the act or neglect of the tenant, and the onus of proof rests upon him to show that it originated from some structural defect or from some cause beyond his control before the landlord can be held responsible. A tenant, therefore, must suffer not only the loss occasioned to his own property, but likewise that caused to his landlord's as well as to his neighbor's, by a fire originating in his (the tenant's) own premises, unless he can prove to the

satisfaction of a court of law that the accident was occasioned by some defect in the building or from some other cause over which he had no control, in which event the entire loss, both on building and contents and for damage done to neighbor's property, falls upon the owner of the building in which the fire originated.

Thus, Section 1382 of the Code Napoleon says: "Every person is personally responsible and liable for any acts of his by which any other person has or may have sustained any loss, damage or injury." Section 1383 says that "every person is responsible for any loss, damage or injury caused by his own act, carelessness or negligence."

Accordingly, a tenant usually insures by one policy the following items: 1. His own property; 2. The "risque locatif"—the risk of responsibility for damage to the building; 3. "Recours des voisins"—the risk of responsibility for damage to property of his neighbors. A landlord insures in one policy the following items: 1. His own property; 2. The "Recours des locataires"—his responsibility for damage to the property of tenants; and 3. "Recours des voisins"—his responsibility for damage to the property of his neighbors.

Though there is no statute specially regulating fire insurance contracts in France—such contracts

being subject to the articles of the Code Napoleon which relate to all contracts—a co-insurance clause is obligatory in all policies, except when by special decision of the “Comité” or “Syndicate”—the two tariff organizations—it is dispensed with in individual cases. This clause says: “If it is established that at the time of any fire the value of the property insured by any item of the policy exceeds the amount insured thereon, the insured is his own insurer for the difference, and bears as such a proportionate share of the loss.”

Fire insurance rates are usually fixed at a meeting of one or the other of the two tariff associations—the “Comité” consisting of three companies, and the “Syndicate” consisting of six, and any decision of one is immediately adopted by the other. Each association publishes a general tariff with regulations, etc., but the terms in both are identical. There is also a syndicate of mutual companies, chiefly for non-hazardous business. Their tariff is the same as that of the other companies, subject to twenty per cent. deduction from all rates.

In Paris insurance business is effected directly with the offices or by means of a broker. In the provinces it is conducted always through local agents. There is no tariff regulation on the subject of commissions. Policies are generally issued

for a period of ten years, and the premium is payable by annual instalments. On such contracts the commission allowed is usually discounted in whole or in part. Policies are drawn either with or without the clause giving either party the right to terminate the contract at the end of any year, but it is generally omitted.

Short-period policies are issued for three-fourths of the annual rate for nine months, half the annual rate for six months, and one-fourth the annual rate for three months and under. The insurance in no case begins immediately after the signing of a policy and the payment of the premium, but on the following day, except in the case of mercantile insurances, where provision is made by a special clause for the immediate commencement of the insurance.

Any concealment or misrepresentation designed to make the risk appear more favorable than it is, according to Article 348 of the "Code de Commerce," invalidates the insurance without the return of premium. If for any reason the insurance is abrogated in part, or wholly, or becomes void by the sale or transfer of the property, the unearned premium under usages in France is in most cases forfeited to the insuring company.

In case of fire the assured is bound to make a declaration immediately, before a justice of the

peace, at his own expense, giving the date of the occurrence of the fire, its probable cause and any other accompanying circumstances, and send a certified copy thereof without delay to the general agent of the insurance company.

In the adjustment of a loss two assessors are appointed, one by the assured and one by the company. The latter is usually a professional expert, but the insured's nominee is often a builder, engineer, or some one having a special knowledge of the property destroyed. If the assessors disagree as to the amount of the damage they nominate a referee, who is agreed upon by both, if possible; but if not, he is nominated by a tribunal of justice. Neither the award of the assessors nor of the referee is binding, but is merely regarded as *prima facie* proof of the amount of the loss. When several companies are interested, the adjuster is usually selected by mutual agreement, but in most cases the wishes of the companies having the largest interests are deferred to by the others.

France has two old established departmental institutions (Caisses Départementales) which transact fire insurance business, one in the Department of the Somme, and the other in that of the Marne. Recent attempts to extend this practice to other Departments have been declared illegal.

In the year 1897 there were thirty-five mutual associations, twenty-one joint-stock companies, and one small re-insurance company transacting the business of fire insurance in France. The twenty-two stock companies, with a total paid-up capital of \$13,820,000, received, in 1897, \$20,530,771 in net premiums, and paid \$9,687,115 in losses, and \$7,168,146 for general expenses and commissions. They distributed to stockholders by way of dividends \$3,472,167. The business of these companies for that year, therefore, shows an average percentage of losses to premiums of 47.1, and an average percentage of expenses and commissions of 34.9.

BELGIUM.

No particular concession is required for the transaction of the business of insurance in Belgium, nor is there a special insurance department. The ordinary tax authorities are charged with the control of insurance matters.

There is no law limiting the minimum amount of subscribed capital for fire insurance companies, but the paid-up capital must be at least ten per cent. of the subscribed capital. According to an article of the Code of Commerce, the annual statement of companies is to be published to avoid punishment. This must show the profits arising from Belgian business.

Foreign companies are allowed to transact business on the same terms as native companies. Those, however, which have commenced operations in the kingdom since 1873 must publish an abstract of their deed of settlement in the *Moniteur Belge*, an official journal, and must also publish any alterations in the same as they may occur.

Fire insurance companies have to pay various taxes on their Belgian profits, amounting to slightly over three and one-half per cent. on the total amount of profit. The authorities of the town of Liège levy a further tax of two and one-half per cent. on the profits realized in that town.

Fire insurance is not undertaken in Belgium by the Government or by any municipality, and there are no special laws relating to fire inquests.

Companies are not compelled by law to contribute to the support of fire departments, but it is customary to make gratuitous payments to fire brigades when they have rendered efficient services.

The fire insurance contract is regulated by the law of June 11, 1874.

The general policy conditions are similar to those of France. The following is the co-insurance clause obligatory in all policies: "If it appears from the valuation made after a fire that the value of the objects insured was greater at the time of the fire than the amount insured thereon, the in-

sured is his own insurer for the surplus and supports as such a ratable share of the loss."

The Code Napoleon prevails in Belgium ; so that the law and practice touching the liability for damage to neighbors' property or to a landlord's property by a tenant are the same as in France, except that in Antwerp on mercantile business an extra premium is charged on each policy, in consideration of which there is an all-round waiver of rights of recourse against landlords, tenants and neighbors.

The *Comité Belge* publishes a tariff applicable to all risks in the kingdom, except mercantile risks at Antwerp. For these risks there are two separate tariffs, not differing materially from each other. One is issued by the Belgian Committee and the other by the Committee of Foreign Companies represented at Antwerp.

Fire insurance business in Antwerp and Brussels is generally conducted through brokers ; in other towns through local agents. Very little business is done with offices direct.

The commission paid is usually twenty per cent. The General Tariff issued by the Belgian Committee contains a provision forbidding the payment of any commission to the insured.

Policies are generally written for ten years, the premiums being payable annually in advance.

For mercantile business, policies are written for the usual short periods. The short term rates under the general tariff are as follows: For six months, simple risks, two-thirds the annual rate, stock in factories, three-fourths; three months or under, simple risks, one-third; stock in factories, one-half. There is also an elaborate short-term tariff for Antwerp mercantile business.

Losses are adjusted by professional assessors. When several companies are interested in a loss the lead is usually taken by the one insuring the largest amount.

There are twenty three native private fire insurance companies of importance in Belgium, at the head of which is the *Compagnie des Propriétaires Réunies*. Competition is sharp in Antwerp, where forty-three fire insurance companies are operating. In the year 1896 there were twenty-two native Belgian companies, with an aggregate subscribed capital of \$10,170,079, of which \$3,194,957 were paid in, and twenty-one of these companies received in total premiums \$7,436,419, of which \$829,890 were re-insured, while they paid in total net losses \$3,854,798. The cost of conducting the business, including commissions, amounted to \$2,041,327. The profit for the year was \$710,404, and the dividends paid amounted to \$357,363.

SWITZERLAND.

The Federal law of June 25, 1885, conferred upon the twenty-five cantonal governments forming the Republic of Switzerland the power to grant or refuse concessions for the transaction of the business of insurance and placed the decision of questions germane thereto in the hands of the Federal Council, and in order to be able to transact business in Switzerland insurance companies must first obtain the permission of this Federal Council.

Though native insurance companies are not required to make a deposit nor submit to a limit for the minimum amount of capital, the home stock companies must give information of the number and the capital of their subscribed shares, how much thereof is paid up, and what requirements exist as to the further liability of the stockholders. Mutual companies must state whether a foundation fund exists and with what limitations, whether the assured or insurer is liable for the losses in the year's account and to what extent. They must also state the principles practiced for reckoning the premium reserve and for providing for pending claims. They must likewise present statistical statements, tariffs prospectuses, etc., for the preceding year.

Foreign companies have to furnish proof that

they transact business at the places where their home offices are located in their own name and right, and are empowered to make contracts. They must select a chief domicile in Switzerland, and appoint a general manager and submit a copy of his certificate of authority. They are also required to make a deposit of 60,000 francs, or, say, \$12,000, before commencing operations. Otherwise, government supervision of foreign companies, which is in all cases exercised by the "Bureau Fédéral des Assurances," is the same as of native organizations.

Every insurance company is required to furnish annually a report of its operations on a special form, giving full details of the business transacted during the preceding twelve months.

The Federal Council imposes a tax of one per cent. on the premiums received in Switzerland. In addition, the town authorities in Geneva levy a further tax called a "Patente." Most of the cantons also impose a tax of so much per 1,000 francs insured for the maintenance of fire brigades.

There is at present no special law regulating the fire insurance contract, though one is in course of preparation. The provisions of the common law apply. To each canton, however, is reserved the right by the Federal law to impose certain forms of wording in policies, which also carries a certain control over the policies in force or to be issued.

The general conditions under which insurance is written do not differ in substance from those in use in Germany. The fundamental principle that insurance should lead to no profit to the assured is upheld by private as well as by government institutions. Since the great fire of Glarus full indemnity has been guaranteed by almost all the companies, not only upon contents, but also upon buildings. Insurance policies contain the usual co-insurance clause, that is, that the insured is considered his own insurer where the property is covered for less than its value. It is not usual to cancel the co-insurance clause, but its retention is not obligatory except in Freiburg, Appenzell and Glarus.

The insurance for a tenant's liability for losses arising from his negligence to his landlord's or to his neighbor's property is not customary in Switzerland. Contrary to French law, the onus of proof of the cause of the fire is thrown on the landlord.

Police investigation of fires is the rule. In cases where fires are the result of carelessness, indemnity is denied in some cantons wholly and in others in part. Two cantons impose fines only for such carelessness, and only one canton is wholly silent upon this point. The laws of the various cantons contain very strict provisions against insurance fraud.

The business of fire insurance is usually conducted by local agents. The rate of commission varies with the different companies, between ten and twenty per cent. of the premium, and is paid during the entire life of the contract.

Policies are generally issued for several years at a time, and it is becoming usual to insert a clause to the effect that, failing notice to the contrary from either side, a long-term policy is replaced automatically on its expiration by another similar contract of like duration. Premiums are payable annually. There is no tariff association of any kind. Each company is free to fix its own rates. No general rule prevails as to what proportion of the annual rate shall be paid for short-period policies. A number of the companies follow the French custom, viz.: Over six and up to nine months, three-fourths; over three and up to six months, one-half; three months and under, one-fourth.

Fire losses in Switzerland are usually adjusted by professional assessors. As a general rule, one office takes charge of the settlement, but there is no recognized standard as to procedure in such cases.

Besides four fire insurance companies, there are in Switzerland seventeen cantonal institutions, which insure buildings, and two which insure contents only. These cantonal insurance departments

are under the management of the local authorities, and insurance in them is usually obligatory. Of the private insurance institutions, two are stock companies, namely, the Helvetia, organized in St. Gall in the year 1861, and the Baloise, organized in the city of Basle in 1863. Each of these has a paid up capital of 2,000,000 francs and conducts a large foreign business. In 1895 the net premium receipts of the Helvetia aggregated 3,459,123 francs, about \$667,610; of the Baloise, 2,837,596 francs, or about \$547,656.

ITALY.

Insurance companies desiring to operate in Italy, besides fulfilling the conditions of the commercial laws, must submit to the Minister of Agriculture, Commerce and Industry, for the purpose of official publication, an abstract of the different policy forms and insurance conditions which they intend to use; also of the system upon which their premium reserves are calculated. Further, for the protection of the assured each company must make a deposit of 100,000 lire (about \$19,000) for each branch of insurance to be conducted. This can be returned to it only when all obligations to the assured are fulfilled. The repayment follows through a decree of the Minister.

The companies have to set aside annually at least

one-twentieth of the net premium income for the formation of a reserve fund until it reaches a fixed limit.

Annually a financial statement, according to a certain prescribed form, also the other documents described in Article 120 of the Commercial Code, are to be presented. A judicially authenticated certificate concerning the deposit made must be added. Insurance companies are subject to the supervision of the said Minister, who is required and empowered to take all measures necessary to secure from the companies the fulfillment of their obligations to their assured. The Minister checks the annual statements submitted and ascertains whether they agree with the company's records, and whether the premium reserves are computed in accordance with the prescribed methods. Every five years a general inspection of all the companies has to be undertaken by the Minister. The expenses attending such examinations fall upon the companies. Fines of from 500 to 5,000 lire (about \$100 to \$1,000) are imposed by the court upon the demand of the Minister for the transgression of any statutory requirement.

Foreign companies must submit to the prescriptions of the Commercial Code and the provisions of special laws, and are required to appoint general agents who must reside in Italy, in order to trans-

act the business of the companies and defend their rights. The authority of the general agent must be published.

Every foreign company is required to publish annually a special financial statement concerning its operations in the Kingdom of Italy, according to a specified form. As soon as a foreign company goes into liquidation or becomes bankrupt, or when it has given up the domicile of its general agent in the country, or when it has not, in the course of two months submitted to the instructions given to it by the Minister, according to law, the Minister is required to take the consequent necessary measures in the civil court of the district in which the office of the company or its general agent has its location, for the appointment of a receiver as defender of the assured in the kingdom. The managers and representatives of the foreign companies are subject to the same fines as those of the native institutions. Special agents who are not subject to the aforesaid fines may be punished by a fine of from 100 to 500 lire for each offense. The legal prescriptions apply to insurance written in Italy. All the aforesaid publications for insurance companies must be published in an official paper.

In the year 1896 there were only four native stock fire insurance companies in operation, since the "Italia" had given up its fire insurance branch.

On the other hand, the number of mutual companies had risen to forty-five. The leading place among the first named companies is taken by the "Compagnia di Milano," not as respects the amount of business transacted, but as to its quality. The only company worthy of mention among the mutual companies is the "Reale Mutua," of Turin, organized in 1828, which enjoys a considerable premium income and is strict in the selection of its risks. The remaining mutual companies are wholly unimportant and supply no real relief to the people.

The number of foreign companies operating in Italy is nine. At their head stand the Austrian companies, "Assicurazioni Generali" and "Riunione Adriatica di Sicurta," both of Trieste.

The character of the Italian business is one rich in losses. The cancerous affections are the little fires. In January, 1896, the losses on even commercial risks were so burdensome upon the companies, by reason of the increased frequency of fires, that a rule was enacted by the Concordat (Tariff Association) requiring the assured to carry one-tenth of the risk in co-insurance, and which seemed to be fully justified. Greater rigor in the adjustment of losses was ordered.

On risks rated up to four per cent. the commission is discounted on ten-year contracts, the average

rate of commission being 100 per cent. upon the first instalment, with twelve to fifteen per cent. on renewals. An annual commission of twenty per cent. is paid on other business. Commission may be paid to the assured.

The ordinary insurance conditions afford no occasion for special comment. It is expressly emphasized therein that insurance should lead to no profit to the assured, and that only the actual loss sustained should be made good. Indemnity is granted against the responsibility of tenants under Articles 1589 and 1590, against neighbor's recourse, under the provision of Articles 1151, 1152, and 1153; as also the recourse of tenants against the landlord, upon the principles of Articles 1151, 1152, 1155 and 1157 of the Italian Civil Code, in addition to fire insurance proper, for which an additional premium is charged, and similar to the rules prevailing in France. The objects insured against fire are likewise covered against loss by lightning, explosion of illuminating and heating gas and of steam apparatus, at a proportionate extra premium.

The co-insurance clause is mandatory.

Policies and notices of change do not go into effect until noon of the day following the date of the policy or indorsement.

The short-term scale is as follows:

Nine months, three-quarters of the annual rate;

six months, one-half of the annual rate; three months and under, one quarter of the annual rate.

Heirs and trustees are required by law to maintain insurance on the property in which they are interested and are liable for the payment of premiums. On the sale or gift of insured property the assured is required to notify the new owner of his obligation to maintain the insurance and must pay, besides the premium falling due, one additional annual premium as indemnification. Insurances under annual policies are always to be renewed for the same period if previous notice be not served within at least six months by one or both of the contracting parties.

The assured has to bear the stamp and other taxes, and especially all present and future imposts relating to the insurance contract, as also the relative money fines, if any.

The Union, as a tariff association, is looked to for the mutual covering of commercial risks. To this belong the Italian and prominent foreign stock fire insurance companies operating in the country. Insurance has received much benefit through this means, especially as regards commercial business.

The new law concerning insurance taxation lays heavier burdens upon the insurance industry than are prescribed in most countries in Europe. Every premium payment for each insurance bears

twelve centesimi per lire taxes, whether stock or mutual. This enactment has been recently changed in pursuance of a decision of the Parliamentary Commission to forty per cent. on the premium of insurances which pay less than one-fourth of one per mille premium; to twenty-five per cent. for premiums over one-fourth and up to four-tenths of one per mille; to twenty per cent. for premiums over four-tenths and up to six tenths per mille; to fifteen per cent. for premiums over six-tenths and up to one per mille; to ten per cent. for premiums over one per mille and up to five per mille; to seven per cent. for premiums over five per mille and up to ten per mille; to five per cent. for premiums over ten per mille. Offices pay a further tax of 0.30c. per 100 lire (or part thereof) on all payments made by them for losses; also a charge of ten per cent. on the net profits realized by them on Italian business. Both of the first-mentioned taxes, *i. e.*, that on premiums and that on losses, are borne by the assured.

Attempts to fix the causes of fires are evidently not made with care and skill, otherwise the number of fires each year would not be so considerable.

In case of fire, according to the ordinary insurance conditions, the assured, at his own expense, must make a sworn statement before a justice of

the peace concerning the cause and all the circumstances appertaining to the fire and present a copy of the minute without delay to the general agent of the company. The right to declare the insurance invalid in case of fraud accrues according to the ordinary insurance conditions.

The means for extinguishing fires are everywhere in a very unsatisfactory condition, and especially so in the capital.

The four native stock companies and forty-five mutual companies, together with eight foreign companies operating in Italy, wrote in the year 1896 \$4,355,646,109 in risks at an average rate of twelve cents per \$100. They received therefor \$5,230,138 in premiums and paid \$2,850,666 in losses, showing an average loss ratio of 54.5 per cent. On the year's business they paid out for re-insurance \$1,518,874 and the relative losses aggregated \$940,500, showing an average loss ratio thereon of 61.9 per cent. Their net premiums and losses, therefore, were \$3,711,264 and \$1,910,166, respectively, making the average net ratio of loss to premiums 51.47 per cent. The net commissions and expenses made a total expense account of \$1,338,417, thus showing an average ratio of total expenses to net premium income of 36.06 per cent. The total net underwriting gain for the year's trading amounted to \$462,681.

SPAIN.

The Spanish government administration takes only a fiscal interest in the business of insurance. The organization of companies and the conduct of the business generally are regulated by the provisions of the Commercial and Civil Codes and the common law applying to limited corporations. The Commercial Code requires that fifty per cent. of the nominal value of the company's shares shall be paid up before they can be made payable to "bearer." Until the shares are so paid up they must be registered in the names of the respective shareholders.

Both native and foreign companies are required by law to make an annual deposit in Spain for the protection of their policy-holders, amounting to twenty per cent. of the gross premiums received in the last preceding year. Companies, however, are not compelled to deposit altogether more than 1,000,000 pesetas, or \$193,000, but this maximum deposit may be all put up at one time. The deposit is made in the office of the chief depository, and must be either in cash or Spanish securities. Real estate upon the peninsula or upon neighboring islands, likewise the rents derivable therefrom, can be pledged as security at fifty per cent. of their value.

The law nominally requires a great variety of statements, but in reality a much simpler return is now accepted by the authorities. Insurance companies are obliged to publish an official balance sheet in the Madrid newspapers and file it in the office of the government finance department. In this balance sheet the amount of the premiums received on old and on new business written in Spain during the year must be specified. Foreign companies have to submit to the department, together with their balance sheet, a sworn declaration supplying in detail the receipts of the several branches of business in which they may be engaged, which must harmonize with their income return. The duty of inspection attaches to the officials of the government finance department, who usually content themselves with the registration of the correct name of the company.

Spanish and foreign insurance companies have to pay a two per cent. tax on each quarter's premiums, plus one-half per cent. extra for surcharge and municipal tax, making in all two and one-half per cent. on the premiums. This is temporarily increased by ten per cent., *i. e.*, to a total of 2.75 per cent. as a "war measure." A similar tax is levied in the same way on agents' commissions. There is also a government stamp tax which is regulated by the amount of premium charged in the policy.

Foreign companies are permitted to transact business in Spain on the same terms as native companies.

Neither the government nor any municipal body undertakes insurance against fire or any other risk in Spain.

The legal authorities are especially charged with the duty of making inquiries as to the cause of fires, and special experts are attached to the law courts for this purpose. If no insurance company or individual moves in the matter, the proceedings are reduced to a mere formality. Accordingly, when a fire loss occurs, the manager or agent of the insurance company is called upon by the judge to state his opinion respecting the fire, and whether he desires to take part in the investigation. Insurance companies are not compelled by law to contribute to the support of fire brigades, or to pay for their services in Spain.

There are very few native insurance companies of any importance in Spain, the "Union and Fenix," the "Catalana" and the "Provision Española" being almost the only ones. These have united for tariff purposes with the French companies operating in Spain, and the Paris Syndicate fixes the rates and publishes the tariff. The ratings, however, are in form only, since the offices generally compete with each other and write at

such rates as their judgment indicates are sufficient. Business is conducted both by means of local agents and with the offices direct.

The commissions paid to sub-agents vary considerably. When the business is done by ten-year policies without cancellation clause, the commission is usually from sixty per cent. to one hundred per cent. of the first annual premium determined by the character of the hazard covered, viz., whether it be a simple or a manufacturing risk. For subsequent years the commission is usually ten per cent. When the policy contains the cancellation clause, the rate of the commission is generally twenty per cent. on each year's premium, irrespective of the character of the risk written. Factory policies usually contain the cancellation clause. The above rates are those paid to sub-agents, the chief or district agent receiving five per cent. additional from the head office. Commissions are sometimes paid to the assured. Policies are issued by the French and Spanish companies usually for a term of ten years, the premium being payable annually, and the contract is obligatory on both sides for that period.

In the case of factory risks, however, the representatives of the British companies have succeeded in generalizing the introduction of the annual cancellation clause. A similar reform is being intro-

duced as regards warehouse insurance. Where short-period policies are written the rate for six months is two-thirds of the annual rate ; for three months, one-third.

The general insurance conditions differ from those in France, usually, only in so far as that indemnity is also awarded for loss of rent when an agreement relating thereto is made a part of the policy contract. In such cases indemnity is granted only for the apartments that were actually leased on the day of the fire. Rents are reckoned for the time during which the damaged premises are uninhabitable in the course of repairs, but not over one year. Insurance is also given against hazard of loss of rent and the carelessness and negligence of neighbors, as is done under similar conditions in France. Loss by lightning, explosion of gas and steam apparatus without fire will be made good by the company upon the terms of a special agreement in the policy, for an additional premium.

The insured in Spain, as in France, has to furnish immediately, in case of fire, a statement concerning the fire and all the circumstances connected therewith, and present a copy thereof to the official delegated by law to receive the same.

According to the general insurance conditions the costs of policy stamps are to be borne by the assured.

The co-insurance clause is compulsory throughout Spain, except at Gibraltar. The following is the text of the clause used by the leading Spanish company: "If it be ascertained that the value of the property insured by the policy exceeded, at the moment of the fire, the amount insured thereon, the insured is, in such case, his own insurer for the difference, and as such bears his ratable share of the loss. If there are several insurers, and if the declarations required by the policy have been made, the company will in case of loss bear a share therein, pursuant to the conditions of the present policy, and in the ratio of the amount insured by it."

In the adjustment of losses professional experts are employed. No established rule prevails as to who shall take the lead in the adjustment of a loss in which several companies are interested.

The only really active company in Spain is "La Union y el Fenix Español"—the Union and the Spanish Fenix. This company was organized in 1864, and conducts both fire and life insurance business. Its fire insurance branch, however, constitutes its strength. It is indebted for its success to its French connections. French capital is largely employed in conducting its business, and its Parisian patrons retain a continued and valuable interest in its operations. The net premiums of the

fire branch of this company in the year 1896 were 7,526,410 pesetas, or \$1,452,597. The losses were 57.40 per cent. The net income of the entire business amounted to 2,057,849 pesetas, or \$397,165, and the total assets to 19,253,597 pesetas, or \$3,715,944.

Next in importance to the "Spanish Fenix" comes "La Catalana" fire insurance company, of Barcelona. Its capital stock is 20,000,000 pesetas, or \$3,860,000, which insure 2,243,000,000 pesetas, or \$432,899,000, and it claims to have paid from its organization to 1894, 5,183,417 pesetas, or \$1,000,399, for losses.

Other noteworthy home fire insurance companies are: "La Provision Española," of Seville, with a capital stock of 2,000,000 pesetas, or \$386,000; insurance in force in 1894, 49,000,000 pesetas, or \$9,457,000; premiums obtained, 289,000 pesetas, or \$55,893; loss payments, 184,046 pesetas, or \$35,521; and "La Alianza de Santander," capital stock 1,000,000 pesetas, or \$193,000, conducting fire and transportation insurance; premiums for fire insurance in 1894, 46,352 pesetas, or \$8,946; and, finally, "La Union Alcoyana," capital stock 250,000 pesetas, or \$48,250; assets in 1894, 318,816 pesetas, or \$61,531; reserve fund, 68,816 pesetas, or \$13,281.

PORTUGAL.

Unlike Spain, Portugal has no government official specially authorized to control or investigate the affairs of insurance companies. No minimum amount of subscribed capital is prescribed by law, but at least five per cent. of the subscribed capital must be paid up before operations are commenced.

Fire insurance companies do not come under any special law, as such, apart from laws regulating joint stock companies. The fire insurance contract is governed by Articles 432 to 445 of the Code of Commerce.

The law does not require any return of business, but all companies must publish annually their balance sheet and report.

Fire insurance is taxed in Portugal in two ways, namely: 1. On premiums, collected by means of adhesive stamps affixed to policies and renewal receipts as follows: New policies paid half by the company and half by the insured, not exceeding \$5, premium, fifteen cents; exceeding \$5 and not exceeding \$25, seventy-five cents; exceeding \$25 and not exceeding \$50, \$1.50; exceeding \$50 and not exceeding \$100, \$3; exceeding \$100, for each fraction of \$25, seventy-five cents. Renewals—mainly paid by the company—not exceeding \$20, premium, three cents; exceeding \$20 and not ex-

ceeding \$50, seven and one-half cents ; exceeding \$50 and not exceeding \$100, fifteen cents ; exceeding \$100, for each fraction of \$25, fifteen cents.

Foreign companies are permitted to transact business in Portugal on the same terms as native companies, except that the policies of foreign companies must bear double the amounts above stated in stamps.

In the towns of Lisbon and Oporto companies have to contribute to the support of the municipal fire brigades.

The business of fire insurance is not conducted by government or municipal organizations.

There are no special laws in force relating to fire inquests, but the cause of every fire is inquired into by the authorities.

According to the Portuguese Commercial Code, when several offices are interested on a risk they are made to contribute to a loss *in the order of priority of execution*. But it is usual to insert a manuscript proviso declaring this clause inoperative, and providing that all the interested companies' policies shall be deemed to be concurrent, irrespective of their dates of execution.

Business is effected direct with the offices at Oporto and Lisbon ; but by means of local agents at other places.

Rates of commission vary from ten per cent. to

twenty-five per cent., averaging probably fifteen per cent. on specials and twenty per cent. on non-hazardous business. Restrictions as to payment of commissions to the insured are unknown.

There is no tariff association in Portugal, and rates are fixed pretty much at hazard and according to custom. Occasionally there is a sort of informal arrangement among the companies for a common rating of a particular risk or class of risks, but no regular system exists.

Policies are generally issued for one year, renewable annually. There is no fixed rule regarding the rate at which short-period policies are issued. The proportion varies with the nature of the risk, and is not the same for new business as for renewals. On special risks the proportions of the annual premiums are: One month, minimum, one-sixth; three months, five-sixteenths; six months, five-eighths.

According to Article 433 of the Commercial Code, in case of insufficient insurance, the insured bears a ratable share of the loss. A clause to this effect generally appears in the policy conditions, from which it is not usual to expunge it.

Tenant's or neighbor's liability does not exist in Portugal.

In the adjustment of losses the companies generally employ some one of recognized standing in

the respective branches of business concerned, such as engineers, machinery agents, builders, etc., to settle the claims with the assured. There are no professional assessors. There is no fixed rule or custom for the appointment of an adjuster; but usually when several companies are interested the offices arrange by mutual agreement for the appointment of one adjuster to act for all.

GREAT BRITAIN.

In the United Kingdom of Great Britain fire insurance companies are subject to no government supervision. No insurance department exists; hence there are no fees to pay, no examinations to submit to and no deposit to make.

For the establishment of insurance companies no concession is required, not even a permit for the transaction of business by foreign concerns. The companies are treated merely as ordinary stock institutions under the Joint Stock Companies Act. No minimum amount of subscribed capital is fixed by law. Except in so far as relates to the requirements of the general laws affecting all companies registered under the Limited Liability Companies Act, no return of business transacted is required.

There is no law either regarding the treatment of the unearned premium reserve, the rule, however, being to reserve from thirty-three and one-third to

fifty per cent. of the previous year's premium income as a liability for unexpired policies. A condition of insolvency exists only when the company fails to meet its matured obligations. The liability of a stockholder for the debts of the company is unlimited, unless it be otherwise specially stipulated in the contract, or the company be registered under the Limited Liability Act.

The freedom enjoyed by the home companies is accorded alike to foreigners. There is one special law, however, relating to the fire insurance contract. In 1774 an act was passed prohibiting insurance on property unless the person effecting such insurance had an interest in the property, and enacting that every policy must specify the name of the person interested. The act also provides that the amount recovered shall be limited to the value of the insurable interest.

The business of fire insurance is not undertaken by the State or by any municipality in Great Britain, nor is it conducted by a governing body in any form.

Notwithstanding the absence of government supervision, the practice of insurance companies in the United Kingdom has some peculiarities worthy of mention. In British business the average or co-insurance clause, insurance against loss of rent, etc., are in vogue.

The average clause commonly used is the pro-rata clause. The language used is this: "Whenever a sum is declared to be subject to average, if the property covered thereby shall at the breaking out of any fire be collectively of greater value than such sum insured, then the assured shall be considered as being his own insurer for the difference and shall bear a ratable share of the loss accordingly."

In a few special cases of mercantile insurance it is permissible to use the two conditions of average. These conditions are stated thus: 1. "Whenever a sum insured is declared to be subject to average, if the property covered thereby shall at the breaking out of any fire be collectively of greater value than such sum insured, then the insured shall be considered as being his own insurer for the difference and shall bear a ratable share of the loss accordingly. 2. But if any of the property included in such average shall, at the breaking out of any fire, be also covered by any other specific insurance, *i. e.*, by an insurance which at the time of such fire applies to part only of the property actually at risk and protected by this insurance and to no other property whatsoever, then this policy shall not insure the same except only as regards any excess of value beyond the amount of such more specific insurance or insurances, which said excess

is declared to be under the protection of this policy and "subject to average" as aforesaid."

In a few other instances the "seventy-five per cent. clause" is adopted. It says: "If the sum insured on agricultural produce, either separately or in one amount with other property, shall at the breaking out of a fire be less than three-fourths of the value of all the property insured in that amount, then the assured shall be considered as being his own insurer for the difference between the sum insured and the full value of the property insured at the time of the fire and shall bear a ratable share of the loss accordingly."

It is obligatory to apply average—either the "Pro-rata clause" or the "Two conditions"—to all policies covering a plurality of risks, except that the "seventy-five per cent. clause" may be employed in policies on farming stock. Otherwise the application of the principle of average is not compulsory, nor is it usual except in case of risks falling under a few tariffs which render its application obligatory.

Policies covering goods in more than one warehouse or on different floors or rooms as general floaters are subject to the co-insurance or average clause.

Insurance against loss of rent is written in Great Britain, with the following as a sample of the clause in use:

“Indemnity is payable only when the building concerned has been so damaged or destroyed by fire that it is not fit to be rented. The insurance covers solely the loss of rent from the day of the fire to the time of re-renting, during repairs, or complete reinstatement of the building, but not to exceed.....monthly payments of rent.”

The premium is the same as for the insurance of the building to which the rent insurance relates.

Insurance against lightning or gas explosion (except in buildings which belong to a gas company) is covered without additional premium.

Liability for damage to contiguous property is not insured in the United Kingdom. Landlords' property is not insured by the tenant except in cases where the terms of the tenancy or lease make the tenant responsible for damage by fire. This responsibility is unusual, existing only where the tenant holds the property under a lease for a term of years. Such insurance might form part of the tenants' ordinary insurance.

Fees for policies, alterations, inspections, etc., are not customary.

Policies are generally issued for one year, renewable annually by receipt. With the exception of mercantile insurances [of wares, etc.], policies are renewed in England on the quarter days: 25th of

March, Ladyday ; 24th of June, Midsummer ; the 29th of September, Michaelmas, and the 25th of December, Christmas. For Scottish insurance the customary renewal days are the 2d of February, Candlemas ; the 15th of May, Whitsunday ; the 1st of August, Lammas, and the 11th of November, Martinmas.

A grace of fifteen days from the expiration of a policy is allowed the insured for the renewal of annual insurance, during which time the company grants him protection. Insurance is rarely written for a term of years, and then only upon prepayment. Upon seven years' insurance one free year is granted.

Business is transacted both through local agents and direct with the offices.

The maximum commission is fifteen per cent., and this is also the usual rate both on tariff and non-tariff business. On a few classes of risks, such as woollen and cotton mills, only ten per cent. can be allowed. A considerable amount of insurance reaches the companies without being subject to the payment of a commission. Commission is allowed to agents only, but in a good many instances the assured holds an agency appointment and so obtains the commission, although it may be stated that the Fire Offices' Committee have recently, in connection with several tariffs, agreed that the

assured shall not receive commission as agent on his own insurances.

A tariff association known as the "Fire Offices' Committee," of which all the leading offices are members, fixes rates for all the more important classes of business. There is no general tariff, but a separate tariff is issued for each class. All business not subject to any tariff is governed by a minimum rating of one shilling and sixpence per £100, equivalent to seven and one-half cents per \$100.

This association has enjoyed an uninterrupted and continuous existence for the last forty years, having been organized on its present basis in 1858. While no definite rule obtains for the systematic revision, at periodical intervals, of the rates applicable to all or any classes of hazards, or for the production by members of tables showing the experience of their respective companies, in actual practice rates are revised from time to time on the motion of individual members or on the recommendation of a sub-committee when the exigencies of the business seems to call for such a measure, and on such occasions the production is sometimes required of statements of experience, although this is not an invariable rule. Under this method of rating upon the joint experience of all the companies it has been found that non-association com-

panies cannot transact a profitable business. To be a member of the Fire Offices' Committee is regarded as a high privilege, and no company is admitted until it has first undergone an examination and has satisfied its would-be associates that its management is such as will justify the expectation of success.

It may here be stated that there are practically no mutual companies in Great Britain, the rates having been kept so close to the combined loss and expense ratio that little or no benefit can be derived from mutual insurance, and when such institutions have been started they have usually existed for a short time only and have been ultimately abandoned.

Small losses in England are adjusted for the most part by an inspector or chief of the claims department of the company concerned. In more important cases professional assessors—not salaried officials of the companies—are usually employed. Where several companies are interested, the one which has the largest interest takes the lead and acts for the others. Where offices are equally interested, the one which ranks first in seniority in point of age takes the lead. The assured may also call in in his interest an expert adjuster. In case of disagreement the matter is decided by an award of arbitration.

British companies re-insure but little under fixed contracts. They offer the business almost exclusively by "request note" to the re-insuring company, which, for each acceptance, issues a "take note." On each quarter day the re-insured company sends the re-insuring company a list of the expiring re-insurances, which has to be returned as soon as practicable, marked so as to show each re-insurance renewed.

There are no special laws in force relating to fire inquests, except only as regards the municipality of London. In the earliest times it was the general practice for coroners to hold inquiries respecting the origin of fires. These fire inquests, however, had fallen into desuetude, until an act was passed in 1888 empowering coroners in London to resume the practice of holding such inquiries.

Fire insurance companies as such are not taxed in any shape or form, except that every policy must bear a one penny (two cent) stamp. Insurance companies, like every other corporation, are required to pay an income tax, which is levied upon their net profits (that is, after deducting the losses and expenses of conducting their business), the amount of which is regulated by the necessities of the Exchequer, and which at the present time amounts to eightpence in the pound (8d. in the £), equal to three and one-third per cent. No other

tax of any other sort or kind is imposed, and consequently the company is liable for no tax if no profit is made. Insurance companies are compelled by law to pay for services rendered by fire brigades outside of their own areas generally and inside such areas in a few cases. In London special powers enable the County Council to levy a tax on the companies based on the sums insured on property in the metropolitan area.

Upon the authority of the *Finance Chronicle*, of London, we are told that at the close of the year 1896 there were eighty-nine fire insurance companies operating in Great Britain, of which fifty-six were native companies and thirty-three foreign companies. These native companies had a paid-up capital of \$44,457,120 ; gross assets (less life liabilities), \$144,095,025, and fire liabilities of \$47,183,930, leaving a net surplus of \$96,911,095. From the same source we gather that the premium income of the fifty-six native companies, derived from business all over the world, amounted to \$94,419,915, and their losses and expenses to \$85,121,115, leaving \$9,298,800 profit.

UNITED STATES.

There is no Federal insurance Code in the United States ; every State, being an independent sovereignty, makes its own insurance laws, and, there

being forty-five States and three Territories and the District of Columbia having organized legislatures, these laws, as might be supposed, differ considerably.

In nearly every State there is an Insurance Department, presided over by a commissioner or superintendent, who, subject to the laws of the State, exercises jurisdiction over all matters pertaining to insurance, and to whom a statement showing the financial condition of the company has to be rendered after the close of each year. In two of the States—Indiana and Georgia—a semi-annual statement also is required to be filed. In all States where insurance departments exist the company is required by law to answer any interrogatories touching any item of its statement which the Commissioner or Superintendent may make, and such officer possesses the power of verifying the statement rendered by making an examination of the books of the company.

The Commissioners, Superintendents or other officials in charge of insurance are chosen as follows :

Elected by direct vote of the people in the States of Vermont, Georgia, Indiana, Nebraska, Idaho, Florida, Colorado, North Dakota, Utah, West Virginia, Louisiana, Wisconsin, Wyoming, Oregon, North Carolina, Arkansas, Iowa, Montana, Nevada,

Washington, and Territories of Arizona and Oklahoma.

Elected by the Legislature in the States of Rhode Island, Mississippi, Virginia, Tennessee, South Carolina, Alabama and Territory of New Mexico.

Appointed by the Governor in the States of Maine, New York, Texas, Missouri, California, New Hampshire, New Jersey, Ohio, Kansas, Massachusetts, Pennsylvania, Michigan, Minnesota, Connecticut, Delaware, Illinois and South Dakota.

Appointed by the Commissioners in District of Columbia.

Elected by the Board of Public Works in Maryland.

Appointed by the State Auditor in Kentucky.

In most of the States the laws provide that no stock company shall be permitted to transact business until it has a paid-up capital of not less than \$200,000, and where such a law exists no company of any other State or country can carry on business in such State without possessing a paid-up capital of a similar amount. In these States the laws likewise provide that any company organized in a foreign country and desirous of doing business in the United States shall first deposit in some State of the United States, in United States securities, a sum which shall not be less than \$200,000.

In the State of New York, besides requiring the deposit of \$200,000 with the Superintendent of the Insurance Department by such foreign company, which is deemed its minimum capital, the laws provide that there shall be an additional deposit of \$300,000 made within the United States, either with the Insurance Departments or with trustees who must be citizens of the United States and whose appointment as trustee is subject to the approval of the Superintendent, making \$500,000 in the aggregate. All companies are required, in addition, to maintain their solvency according to certain prescribed methods of determining it, so as to leave their capital unimpaired. As every policy issued contains a condition that it may be cancelled at any time, either at the request of the company or of the assured, it is provided that the company shall always have in hand a sum of money sufficient to retire its policies by returning to the policy-holder the full pro rata premium for the unexpired time thereof. In addition, therefore, to the holding of assets which shall be sufficient to meet all accrued losses and other expenses incurred in the conduct of its business the company must have in hand sufficient funds to cancel its outstanding policies pro rata. If the statement presented to the Insurance Department should indicate that after these various liabilities

have been charged up the capital of the company is impaired to a greater extent than twenty-five per cent. the Superintendent or Commissioner of Insurance is required to report it to the Attorney-General, who will thereupon insist either that the impairment shall be made good by an assessment upon the stockholders of the company, or that the company shall cease transacting business.

Besides the \$200,000 required by the laws of the State of New York to be deposited with the Superintendent of Insurance of that State, the State of Ohio requires a deposit of \$100,000; the State of Oregon \$50,000, the State of Virginia not less than \$10,000 nor more than \$50,000, the amount depending upon the volume of business transacted in the State; the State of Georgia \$25,000, and the Territory of New Mexico \$10,000. The deposit required in the first named of these States applies to foreign companies only; in the last three and in the Territory of New Mexico, to all companies, whether native or foreign.

Every company, whether of any other State or country, is required to appoint an attorney in the State in which it does business, upon whom process can be served, in order to bring its contracts under the control of the laws of the State, the Superintendent or Commissioner of Insurance, however, in certain States being authorized by law

to accept service in behalf of any company transacting business in such State.

To guard against local or State bias or prejudice there is a Constitutional provision for the creation of Federal Courts as well as State Courts, in each State, and an alien has the right of bringing a suit in the Federal Court if he so elects, or if brought against him in the State Court to have it transferred to the Federal Court, but this liberal provision has been practically nullified in many of the States by the enactment of a law under which the State, exercising the police powers which it enjoys under the Federal Constitution, requires that every alien company before receiving a license or the renewal thereof shall enter into an agreement to submit to the jurisdiction of the State Court any cause of action which may arise with the assured within its borders.

There are laws also which regulate the conditions which may be embraced in the policy, some States requiring a different set of conditions to those demanded by other States. There are laws also which provide that the sum insured upon any building shall be regarded as the value of the building in the event of its total destruction by fire, and laws which forbid the use of the co-insurance clause. There are laws, likewise, which make illegal any combination of companies or

agents for the purpose of making or sustaining rates.

On the other hand, there is a law in the State of New York under which a company is empowered to set aside a certain portion of its assets as a special fund, which fund is released from all liability for losses resulting from conflagrations, and which places the company in a position to continue business even when unable, by reason of heavy losses sustained by conflagrations, to meet its obligations in full.

The aggregate fire premium receipts of all the companies transacting business in the United States, by reason of the magnitude of the property covered, is far larger than in any other country of the world. The total receipts of all the companies doing business in the United States for the year 1897, native and foreign, amounted to the enormous sum of \$152,750,000. These premiums were collected by 248 native stock companies, 35 foreign and 222 mutuals. These 248 native stock companies possessed on December 31, 1897, gross assets of \$247,300,000, their liabilities were \$99,125,000, and their surplus was \$148,175,000.* Up to January 1, 1897, 1,088 joint stock fire insurance companies had been organized in the United States, of which 840

* New York State Insurance Report for 1898, and the Insurance Year Book for 1897.

subsequently failed or retired. From the date of the Independence of the United States fifty-nine foreign companies have been regularly admitted to do business therein, of which number twenty-four have retired after a longer or shorter experience, because of unsatisfactory results attending their venture, leaving thirty-five companies of foreign nationality still transacting business. According to the returns supplied by the Superintendent of Insurance of the State of New York and by the 1898 edition of the Fire Insurance Pocket Index, we find that these foreign companies had at the close of the year 1897 invested funds in the United States of the value of \$72,700,000, their liabilities, including unearned premium, amounting to \$32,330,000, and their surplus over all \$32,750,000. These companies have established agencies in nearly every city and town of the United States.

The extent of the country being so large, a number of associations of companies have been formed for the better control of the business, and especially in the making and maintenance of adequate rates of premium. Thus we find the "New England Insurance Exchange" controlling such matters in all of the New England States; the "Underwriters' Association of New York State" controlling the State of New York outside of the city of New York and its immediate vicinity; "The Union"

(Western) governing the Northwestern States ; the "Underwriters' Association of Middle Department," comprising the States of Pennsylvania, New Jersey, etc.; the "Southeastern Tariff Association," embracing the Southern States, and the "Fire Underwriters of the Pacific," comprising States upon the Pacific Coast. Besides these principal associations of underwriters there are numerous others having a more or less extended sphere of operations, and, in addition, every important city or town has its board of local agents, organized and maintained for the purpose of securing correct practices in underwriting. The companies for the most part divide the control of their business into sections, establishing branches for each section and giving jurisdiction therein to their appointed representatives. By these various branches special agents are appointed to supervise the business and to inspect all risks presenting features of unusual hazard, and who are likewise employed to adjust losses when and as they occur. The cost of employing these special agents, not only in salaries but in traveling expenses, is very considerable and forms a formidable item in the companies' expense account.

Local agents, as a rule, write their own policies on blanks supplied to them, sending a report thereof to the chief or branch office of the company,

which report must contain an exact copy of the wording of the policy. They are required to make up their account at the close of the month and to remit the balance shown thereby after deducting their commission and such authorized expenses in the way of postage or telegrams as they may have disbursed. Such local agents are usually compensated by a commission upon the premiums written, but occasionally in the larger cities they are paid by a salary.

While the premiums paid are large the losses incurred are correspondingly heavy. During the past twenty-three years there have been paid in fire losses in the United States \$1,439,500,000, or an average of \$62,587,000 per year, an amount of loss which is perfectly appalling in its magnitude. Of the losses of the past year 39.35 per cent. occurred from accidental and supposedly not preventable causes, 17.96 per cent. were believed to have originated from inherent defects in the buildings in which they occurred, 7.40 per cent. from incendiarism or arson, 35.29 per cent. from unknown or unreported causes.*

In some of the larger cities building laws have been enacted designed to prevent those structural defects which have produced so many losses, and a

* Chronicle Fire Tables, 1898.

disposition is being manifested, notably in Massachusetts and in New York, by the employment of a Fire Marshal, invested with plenary powers, to investigate the origin of fires, especially those which are attended with suspicion.

As in other countries, the receipts of fire insurance companies have proved a tempting prey for the tax gatherer, and the statistics show that for the year 1897 2.61 per cent. of the premiums received was paid for taxes. In but three States is the tax levied upon the premiums after the losses have been deducted, and it frequently happens that taxes are paid in certain States in which no profit whatever has been made. Besides direct taxes the companies are required to pay for agents' licenses, and in certain municipalities a heavy license fee for the privilege of transacting business. As the rate of tax differs in various States reciprocal or retaliatory laws have been enacted under which it is provided that wherever companies foreign to the State are required to make a deposit or pay a tax, the companies of the State where the deposit is required or the tax is imposed shall be subjected to the same deposit requirement or tax in other States where they are doing business. Under the operation of these differing laws there is no exact equality in taxation, even with the native companies, the ratio of tax in other States being measur-

ably governed by the tax rate imposed by the State under whose laws they had been organized. Foreign companies, *i. e.*, companies of other nationalities, pay a varying tax rate, but on the average it is about the same as is paid by their native competitors. Efforts have been recently made in certain States to discriminate against the foreign companies in the matter of tax, but the legislatures, recognizing the inhospitality as well as the unfairness of such treatment, have manifested no disposition to encourage the movement.

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COMMENTARY.

In reciting the laws and practice which govern the fire insurance companies of the world generally I have confined myself to the United States and the leading countries of Europe, the limits of this paper hardly permitting me to extend my researches further. It may, however, be stated in passing that in the South American Republics, in the British

colonies of Canada, Australia and South Africa, and in China and Japan, companies have been organized and successfully conducted with native capital to back them, and with these the companies of the old world are found engaged in honorable competition. While the laws under which the companies live, and the methods which they pursue, differ materially, yet, on the whole, a certain degree of harmony is found. Wherever the danger of fire is greatest there the insurance company is most needed and there its activity is keenest. In France and Spain, in Italy and in the Spanish settlements of the New World generally, almost every building is a fortress constructed as much for defense against an enemy as to prevent its destruction by fire. Where such buildings exist fire insurance languishes, and while merchandise stored in such structures is usually protected by insurance the buildings themselves are frequently left uncovered, the danger from fire being too remote to create anxiety concerning them. With the exception of Great Britain, it will appear from what has been stated that all of the nations have passed laws for the government of fire insurance companies, but nowhere, except in the United States, do we find any law requiring the company to pay more than the actual loss sustained, which loss must be es-

tablished by proof after the fire. The United States stands alone, therefore, in enacting laws which enable the assured to realize a profit from a disaster. The method of obtaining business through the medium of agents and brokers compensated by a commission exists all over the world, the commissions paid varying according to the difficulties to be met with in inducing property owners to insure.

In Holland there appears to exist a practice in securing business which obtains in no other country, under which officers, managers and brokers meet on the Bourse at certain hours of the day for the purpose of receiving and accepting applications for insurance. I commend this plan to the careful consideration of the New York brokers and would supplement it by the suggestion that in fitting up their Exchange they provide a rostrum and an auctioneer, that each risk be submitted to competition, and, reversing the practice commonly governing such transactions, knock it down to the *lowest* bidder. Such a public allotment of the business would doubtless relieve both broker and manager from those qualms of conscience and the physical exhaustion consequent upon the effort which has to be made to deceive their competitors when solemnly testifying as to the rate charged and the commission paid. If Ananias had adopted this

method of disposing of his property he might have been alive to-day ; had he been in the insurance business he would surely have died sooner.

The laws of France and other countries operating under the Napoleonic Code seem to be worthy of special comment. Under these laws a citizen is held liable for any loss which might be caused directly or indirectly by him, upon the theory that a man should be responsible for the consequences of his own negligence or neglect, which, besides being the law, would seem to be good, sound, common sense also. If this principle were recognized by our Code, it seems to me that our losses by fire would be very greatly reduced, and that those accidents which are constantly occurring on account of the defective construction of flues would be measurably reduced. In 1894 a law was enacted in the State of Massachusetts under which a Fire Marshal was appointed for the Commonwealth, whose duties require him to investigate the cause, origin and circumstances of every fire occurring in the State, and under the authority given him by law he is empowered to take or cause to be taken the testimony under oath of all persons supposed to be cognizant of any facts relating to the fire which is the subject of his investigation, and when he finds sufficient evidence to charge any person with the crime of arson he is authorized to cause

such person to be arrested and charged with the offense. The law further provides that any owner or occupant of buildings or premises failing to comply with the orders of the Marshal shall be punished by a fine of not less than ten or more than fifty dollars for each day's neglect. This law has had a very marked effect upon the amount of fire losses sustained in the State of Massachusetts and its general adoption by other States of the Union, in my judgment, could not fail to have a most beneficial result. The enactment of proper building laws in cities and towns where there is a large aggregation of value, and the rigid enforcement of them, would likewise tend to bring about a considerable reduction in fire losses. Whether the insurance companies would benefit by such laws and the results which would follow them is an open question. Their business is to charge a rate of premium adequate to the risks as they find them, but this much is certain, that the property owner, upon whom the loss really falls, would be benefited, since to the same extent that a reduction of losses could be brought about, a reduction in the premium charged for insurance would inevitably follow.

The foreign fire insurance companies which have established branches in the United States have come chiefly from Great Britain and Germany, al-

though we have a few welcome visitors from Canada, Australia, Switzerland, Holland and Sweden, who have made the requisite deposits here, and have otherwise conformed to the insurance laws. Several French companies have made an attempt to transact business in the United States also, among them being the "Compagnie de Reassurances Generales," "La Caisse Generale des Assurances Agricoles et des Assurances contre l'Incendie," "La Confiance Compagnie Anonyme d'Assurances contre l'Incendie," and "La Metropole Compagnie d'Assurances Mobilieres et Immobilier á primes fixes contre l'Incendie," but so many jaws were broken in the effort to pronounce their names correctly, and there being no law by which they could be re-christened, they were persuaded, after a brief sojourn, to retire..

In no other country in the world have the powers of the underwriter been so hampered by legislation as in the United States, every discontented policyholder looking to the Legislature for the redress of his grievances, imaginary or real. A man in Virginia suffering from defective vision succeeded in getting the enactment of a law compelling the insurance companies to print the conditions of their policies in a bolder and more legible type, failing to observe which the conditions were rendered null and void. In many of the States there exist valued

policy laws which provide that the sum insured shall be regarded as proof of the value of the property described in and covered by the policy, regardless of what its actual value might be. Another State requires that not only the conditions of the policy but the heading and all the printed matter shall be printed by all companies in the same type and that the size of the policy shall be uniform. This policy form, while valid in the State demanding it, is illegal if issued in a neighboring State. Many of the States now have what are called Resident Agents' laws, under which the company is made subject to certain pains and penalties for writing a risk in such State except through an agent resident in the State. Indeed, it requires of the underwriter the proverbial astuteness of a Philadelphia lawyer to determine what he can and cannot do under the conflicting laws of the various States as they exist to-day.

Of all the legislative enactments of recent years the New York Standard Policy Act of May 1st, 1886, stands solitary and alone as a piece of legislation which has operated to the advantage of both insurance companies and insured. This form has stood the test of eleven years' experience, and has proven to be one of the most perfect forms that could have been devised. What is good enough for the property owners and companies of New

York ought to satisfy those of other States as well, and it would remove a great burden from the shoulders of insurance companies if this form were adopted throughout the United States. Divergent conditions in policy contracts, all of which contain a contribution condition, are most embarrassing in the apportionment of a loss, and the settlement of this question by the Legislature, it must be admitted, has operated for the benefit of all who are interested in this subject. The conditions of policies of fire insurance companies, while differing in all countries of the world, are yet substantially the same. In Great Britain, in the absence of any provision to the contrary, the stockholder of a company is an unlimited partner, and as such is liable to make good its contracts to the full extent of his individual resources, irrespective of the amount of stock for which he has subscribed. A company, however, may be organized under the Limited Liability Act, in which case the liability of the stockholder can be limited to the amount of his stock, but when so organized the company is compelled to place the word "limited" upon each policy contract, or any renewal thereof, in order that the party holding it may have full knowledge of the fact. In marked contrast to this severe provision, designed for the protection of policy-holders, the laws of the State of New York provide that a com-

pany may set aside a portion of its assets, which special reserve shall not be liable for extraordinary conflagrations, and which could be utilized in continuing the business of the company even should it fail to meet its obligations in full. Several companies have set apart such a fund under the provisions of this law.

There are no laws governing the insurance contract in Great Britain, each company being free to make such a contract with the property owner as he may be willing to accept, and that contract, whatever its provisions may be, will be sustained by the courts of the land. Nor is there any law regulating the amount of capital under which a company may transact business. It can be large or small, as the company itself may decide in its interests that it is expedient to expose. There is nothing in the law, therefore, to prevent a company which has been legally organized from taking an office, putting out a sign, and writing all the policies which property owners will pay for, whether its capital be a hundred dollars or a million. There we find that the people, who are certainly not more intelligent than our own citizens, are perfectly able to take care of themselves if left to their own devices, and that no law is necessary to protect them against their own foolishness. The common law, and a vigorous enforce-

ment of it, would fully protect the insured from the wiles of the irresponsible company. It could not entice him into its meshes by presenting a statement which was false, since that would be obtaining money under false pretenses, and as a fraud be punishable as such. In this country, I claim, we are a little too easy with our malefactors and permit them to resort to dishonest practices without instilling into their minds by punishment a wholesome fear of the law. A strict enforcement of the criminal code, which could easily be brought about when public opinion generally sustained it, would be far more effectual in preventing insurance frauds than any civil enactments devised for the purpose of preventing them. Here our people are taught to look to the insurance departments for protection against the invasion of "wild cats" and irresponsible adventurers who peddle "cheap" insurance, while experience shows that notwithstanding the safeguards provided by means of State supervision such so-called insurance companies will find a lodgment, and that the losses which the assured make by placing their insurance in such concerns are far heavier than where they are left to take care of themselves under the protection of a criminal law rigidly enforced. In Great Britain, where this freedom exists, the result proves that there are fewer irresponsible companies and a smaller oppor-

tunity of imposing upon the ignorance of the people than here, where the most elaborate laws exist for their protection. I know of no reason why the property owner is not just as well qualified to protect himself against a fraudulent insurance company as he is against an irresponsible merchant, and the freeing of trade generally, whether it be insurance, banking or anything else, leaving our citizens to control these matters for themselves in their own way, would, I am satisfied, produce much better results than the most complete bureaucratic system that the ingenuity of man could formulate. If capital were free to embark in any enterprise from which a satisfactory return could be reasonably expected, there would be no need of any law to prohibit combinations, for if the rates of premium charged were too high, producing abnormal profits, new capital would soon step in and compel their reduction, and no combination of insurance companies, however strong, could for any length of time control a business which could be conducted on a lower scale of rates and yet yield a profit.

Whether, as I have said, all these legal enactments are in the interest of the people may well be doubted. If, however, this system of paternalism be continued the question may fairly be asked, why at least some uniformity in the laws and the

methods of enforcing them by the State authorities intrusted with this function could not be secured? Under the present system the companies are embarrassed every year by being required to make up their statements in numberless different forms, and when comparisons are made of the statement filed in one State with that which is filed in another disparities are shown to exist. It seems to me that as the ostensible object of presenting these statements is to enable property owners to judge of the solvency of the companies, it would be sufficient if an asset and liability statement alone were supplied to them. What interest or concern the public generally have in the income and outgo of the companies I fail to see so long as the company maintains its solvency. Each succeeding year appears to bring out new queries from various quarters touching upon the internal economy of the companies and with which the people can have no concern. The Insurance Commissioner for the State of Kansas sympathizing, as doubtless he does, with the troubles of the insurance companies and the harrassing character of their business, has apparently determined to see that the salaries paid to their officers are made proportionate to the anxieties and difficulties to which they are subjected, and in order to carry out this philanthropic idea has called upon each one of them to give a list

of the salaries which they pay. While prompted by the highest and purest motives, so far as I know, no good result has yet come from the movement—at least none has come to me. Indeed, it would seem that the officers of many of our companies had failed to appreciate the efforts made in their behalf and had resented the interference by withdrawing from the State. The publication of the statements in their present form seems calculated to mislead the public. It is shown, for example, in a certain State that \$10,000,000 in premiums, say, have been collected, while losses amounting to only \$6,500,000 have been paid. The local newspaper taking up this statement and commenting upon it undertakes to show that the companies have made a profit of three millions and a half of dollars in that State, forgetting that of this large sum at least \$1,500,000 has been paid by way of commissions to agents resident in the State, another \$400,000, more or less, by way of taxes, license fees, and other State imposts, and still another \$400,000 for railway and other traveling expenses of special agents employed in examining risks written and in adjusting losses which have occurred, and when all these and other unavoidable charges incurred in the State are deducted we find a sum of not more than from five to ten per cent. of the receipts has gone to the parent offices of the

companies for the payment of their expenses and for dividends upon the money invested in the business.

This question of rates of premium has been the cause of continuous disputes ever since the day that a fire insurance company was first established. At the outset, we are told, a level premium was charged without regard to the nature of the hazard involved, the only difference that was made being caused by the character of the construction of the building, whether it was brick or wood, the wooden building paying double the premium applicable to the more solid structure. But in course of time, as experience demanded and competition compelled it, rates were graded in some proportion to the hazard which attached to the subject insured. No tariff of rates, however, that has ever yet been framed has given complete satisfaction to those who were required to pay them, and the insurance company has always been regarded as an extortionist exacting a price for the indemnity far beyond what it was really worth.

Some years ago a carefully selected committee of underwriters, presided over by the president of one of our leading companies, and upon whom the labor chiefly devolved, undertook to formulate a rating schedule applicable to the rating of all classes of hazards, under which it was proposed to

first classify each city or town according to the general construction of its buildings and the provision which had been made for its protection in the way of a water supply and fire department. A standard was then established for a building, however constructed, according to the classification of the town and a uniform key or basis rate fixed for each building. For this basis rate a Dr. and Cr. account was opened, and for each structural or other defect found a charge debited, and for each exceptionally favorable feature which the building presented a specific allowance was credited, the net figure thus arrived at being the rate for such risk. This schedule has generally been conceded to be one of the most scientific productions of this underwriting age, but it was subject to this serious fundamental objection that the basis rate itself and the debits and credits charged or allowed for features of defective or superior construction were after all based upon judgment, governed by experience, rather than upon experience itself. Each debit and each credit provided was fully justified by the hazard or reduced hazard which existed, but no proof could be given that the charges or allowances mathematically measured the hazard to which they applied. The best that could be said of them was that they represented the collective judgment of the underwriters. Upon

this schedule, in a more or less modified form, our present rates have been made, and the adoption of this system has unquestionably had the effect of reducing to a very large extent the fire losses of this country and a corresponding reduction in the premiums charged for insurance. I claim, therefore, that the combined action of the insurance companies in enforcing a system of rating based upon scientific lines has operated, and will continue to operate to the great advantage of property owners in this country.

There is no one, I take it, not even the most rabid of our corporation haters, but who would concede that the insurance company was entitled to charge a rate sufficient to meet the losses and the expenses incident to the conduct of the business and yield a reasonable return upon the capital engaged in it, but the moment we come to discuss that rate, differences of opinion arise as to what it should be, and the company is not in a position to demonstrate to the satisfaction of the assured that the rate charged is not exorbitant. Recognizing this fact the Commissioner of Insurance for the State of Wisconsin in his last annual report laments the absence of this knowledge in the following words :

“Had the business of fire insurance a table of experience made up of the experience of all

companies, under which the different hazards were classified, it would be comparatively easy, exclusive of moral hazard, to approximately determine the rate necessary on any given risk. Legislation has done nothing to gather such an experience table, and it is to these Unions and Associations, so generally condemned, that we must look for its creation. Until recently the jealous guarding of its experience by each company has made this work almost an impossibility, but by reason of these associations this work of gathering this experience has recently been inaugurated, and when completed will do more to establish justice and equity in rates than all the anti-compact laws ever enacted or thought of."

These remarks have touched upon an idea which I myself have long had in mind, and I have decided to take advantage of this opportunity to outline a plan whereby the want above indicated might be supplied. I have already stated that I do not believe that the controlling of fire insurance or any other private contracts by law is really in the interest of the people, but if, in the exercise of their good judgment, it shall continue to be the policy of our State Governments to regulate such transactions then it seems to me that the machinery of our insurance departments might be utilized to

better advantage than by collating statistics showing the premiums received the losses paid, and the various sums which are expended for commissions, salaries, taxes and other incidentals necessary in the conduct of the business in which the stockholders of the companies are alone concerned, an asset and liability statement being really all the policy-holders need to enable them to judge of the security upon which their policy contracts are based. There would be no difficulty, I apprehend, in preparing a classification of hazards which should be applicable to each State and compelling each company transacting business in the State by law to classify its business in accordance with the State blank, by showing the sum insured in each class of hazard and the amount of losses paid or incurred thereon. In this way the experience of each State could be easily ascertained, and upon the aggregate results thus reached the premium could be assessed, after adding to the loss ratio such a loading as would cover the expenses of conducting the business. For example :

If the sum insured and in force for any full year upon frame saw mills in the State of Wisconsin were, say, \$5,000,000, and the losses under that class were \$100,000 during the year, we would know that two per cent. would represent the actual loss cost on that class for the year, and if to two

per cent. we should add seventy per cent. we would then arrive at the following result:

Sum assured, \$5,000,000 at 2 per cent. +

70 per cent. = Rate 3.40 = Premium . . . \$170,000

Losses, 58.82 per cent.	\$100,000
Expenses, 34.00 per cent.	57,800
Profit, 7.18 per cent.	12,200
	<hr/>
	\$170,000

In the carrying out of this plan any policies written for a longer or shorter time than one year would have to be so treated that only such proportion of the sum insured would be charged to the year dealt with, as the time run during the year might bear to the entire year, but this is a matter of detail into which I need not enter. From our experience we know that the business cannot be conducted at a less cost on the average than 34.0 per cent. Indeed, the statistics compiled by the National Board of Fire Underwriters prove that the average annual rate of expense during the past thirty-eight years has been 34.45 per cent. Consequently, I claim that no exception could be taken to this loading for expenses, nor could the ratio of profit—7.18 per cent.—be fairly criticised, since \$1,000,000 of capital engaged in a hazardous business of this kind and producing an income of a similar amount, would then receive but \$71,000

profit, which certainly could not be regarded as excessive.

Like many other suggestions made for a change in existing methods, I assume that this also will be dubbed as crazy and impracticable, but let us see whether at least it might not be worthy of some consideration. The success of the plan, it seems to me, would depend upon two main factors, viz.: the scientific preparation of the classification blank and the correctness of the returns which might be made under it. This blank, besides supplying a class for every hazard, should also provide for such a subdivision of hazards as would enable the results upon brick and frame buildings to be shown separately, and likewise the results upon such classes of hazards as were under fire protection and those which were not. The better the water supply and the more efficient the fire department, the lower, as a rule, will be found the ratio of losses to the value of the property at risk, and those cities and towns which have gone to the expense of protecting their property against fire in this way should, as indeed they do now, receive the benefit of their prudence and foresight by a reduced insurance rate. The superintendent or commissioner of insurance, with the aid of a committee of underwriters, might easily classify every town in his State in accordance with the conditions as he found them. Such a plan

would act as a stimulus to the enterprise of those towns which might desire to get into a higher class by causing them to make such an expenditure of money in improving their water supply and fire departments as would enable them to bring about the change. My plan would be to cease this harassing legislation prohibiting combinations of companies from agreeing upon insurance rates. No one will deny that the rate for a given risk, or class of risks, should be founded upon experience; and yet when the underwriters get together and, exercising their best judgment, based upon their collective experience, prepare a tariff of rates, forthwith is raised the cry of combination! And then the restricting powers of the legislature are invoked, a so-called anti-compact bill is introduced and enacted, and the companies are driven to resort to all kinds of ignoble subterfuges to discover some way of evading the law. That the solvency of our companies is of prime importance to the safety and security of the property of our citizens goes without saying, and that this solvency could not be maintained unless adequate rates were charged, must also be conceded. It is furthermore beyond dispute that a rate which shall be fair to both company and assured can only be reached by utilizing the combined experience of all the companies engaged in the business. If property owners are

really desirous of ascertaining the exact loss cost of the business the method above suggested supplies a means. In our bureaux of vital statistics we have collated all that information which is necessary to show the conditions of health and longevity as they exist in every town in the country. I know of no reason why similar statistics could not be collected by the State officers upon the subject of fire losses, and thereby set at rest forever that cry for legislation against combinations of insurance companies which is raised all over the land. Let us know what the loss cost is and the rest will be easy. With this information before him the insurance superintendent could make up a tariff of rates as well as the most skillful underwriter, and when the tariff had been made by State authority a law might be passed providing that no higher rates, including a definite loading, should be exacted by combination, the companies, however, being free, of course, to write at the rate fixed, or not, as their judgment might dictate. This is substantially the method adopted by the life insurance companies in making their rates. They first ascertain from experience the average expectation of life on a given number of healthy males at certain ages, and having determined this they construct a table of rates based upon a fixed rate of interest, adding to these rates such a loading as will

meet the expenses of conducting the business. If, upon a physician's examination, the life of any applicant for insurance should be found to be not quite up to standard an additional premium is charged by way of compensation for the reduced period of time he was expected to live, but if the examination should indicate that, like some of us, he was threatened with an early funeral, the application would be declined with thanks. In the practical carrying out of such a plan, the maximum State rate having been fixed for each class of fire hazards, the underwriters would construct their tariff accordingly, charging something less than the average rate for such risks as might present favorable features, as regards construction of buildings, carefulness of management and protection by fire extinguishing appliances provided for that purpose, either by the municipality or at the expense of the owner, while those risks which, in their judgment, fell below the average, would have to be penalized by a rate in excess of the average rate applicable to the class, such excess, however, to be determined by the individual action of the underwriters and not by means of the concerted action of all, the State official rate fixing the limit beyond which combination could not go. At the outset, doubtless, my plan would be ineffective, for the reason that we would have only the exper-

ience of one year to determine the rate, but this in due time would be remedied if provision were made for averaging the experience of each successive year until the first decade had been passed, and then striking off the earlier year and substituting the latter one in making up the average.

If this plan were adopted and the State should permit a combination of companies operating upon this State experience and making a tariff based thereon, it seems to me that no one would have any just cause of complaint. The advantage would be that every property owner in the State would be interested in keeping the losses occurring in the State at as low a point as possible, and that instead of utilizing every possible occasion to compel the insurance companies to pay whenever a disputed case was brought into Court, as is done now, each property owner would have a direct interest in keeping the aggregate amount of losses as low as possible, for the reason that every additional dollar that was paid in the State would fractionally increase the rate of premium that the property owner would thereafter have to pay. A combination to sustain prices is not necessarily prejudicial to the interests of the people. It is the abuse of the power which combination gives that makes it harmful and indefensible. To a compact of insurance companies organized for the purpose

of maintaining uniformity of rates on the lines of demonstrated experience, no one could reasonably object. That the rates charged have not been excessive on the whole is demonstrated by the fact that the statistics show that the net profits of all the fire companies (reporting to the Insurance Department of the State of New York) collectively during the last seven years have been only 2.16 per cent. of the premiums received.* There were burned in the United States in 1897, 33,033 dwellings, 913 saloons and 735 churches, besides 31,098 other buildings.† From this it would appear that the homes of our citizens and the buildings in which they conduct their religious exercises, as well as those in which they take their drinks, are alike exposed to the element of fire, the loss by whose ravages the insurance companies attempt to distribute over the community, ratably upon the destructible property which they individually possess, and make a little profit for themselves.

Comparison is sometimes made of the relative rates prevailing in various sections of the country, and by the uninitiated the underwriters are sometimes unjustly charged with unfairness in rating one section higher than the other, but it must be

* National Board of Fire Underwriters. President's Address, 1898.

† The Chronicle Fire Tables, 1898.

remembered that the climate is an important factor in determining the fire hazard and the appropriate rate for insuring against it. Certain sections of this country, as we know, are subject to long and continuous droughts, and there the hazard is necessarily greater and the rate accordingly higher than where rains are constant and abundant. Again, the character of the population has an important bearing upon this question of rate. Certain sections of our country are largely settled by foreigners who have "left their country for their country's good"—a nomadic crowd of adventurers who seek to make a living, honestly, if they can, but make it, somehow, they must, wherever and however they can secure it, and who, if occasion requires, will resort to the torch or any other expedient to accomplish their purpose. To this it may be said: Why not leave such persons to be insured by Lloyds and mutuals? and so we endeavor to do, but still we cannot rid ourselves of the hazard which their presence occasions. If every risk were self-contained and the hazard of fire attending it confined to the limits enclosed within its own walls the suggestion might be a valid one, but we know that we may insure a Nicodemus—say, in Podunk—a man spotless and without guile, and yet a few doors away there may live a bohemian scoundrel without means or conscience,

who, to serve his own interests, will kindle a fire in his own store and burn a dozen of his neighbors' also. That incendiary cow in Chicago which, goaded to desperation by the vicious pinch of a milkmaid, kicked over a lamp, causing the loss of many millions of dollars of property, and those companies which had persistently declined to insure cow barns run by revengeful milkmaids suffered equally in the general catastrophe with those who wrote them freely. I say that locality and character of population are prime factors in the determination of the rate question. In the mining centres of the West, where buildings are hastily erected to meet an immediate want and to supply a temporary demand, rates of insurance must necessarily be higher than in those towns which have been settled for many years and in which there are permanent manufacturing or commercial establishments. So I say uniformity in rates all over the country cannot be expected, nor can any ever exist until uniformity of conditions shall prevail. The highest rates which are paid for insurance the world over exist in Russia and in North America, if we except certain of the West India and the Philippine Islands, where wooden structures largely abound. In France, Italy and Spain the lowest rates prevail, the reason being that in these countries buildings are of massive construction and a minimum of

danger from fire exists. This improved method of construction is rapidly being introduced in this country, and such buildings are insured at as low a rate here, and in some cases even lower than is charged for similar structures in Europe. In this country, owing to the divergent conditions to which I have referred, rates in different sections differ as widely as between one country and another. We find from statistics supplied to us by the insurance departments and collated in "Fire Insurance by States," that in the State of New York the average annual loss on each one hundred dollars of insured property during the past seventeen years was thirty-seven cents; in Idaho, \$1.90; in Texas, \$1.12; in Massachusetts, sixty-two cents; in Vermont, \$1.01; in Wisconsin, eighty-eight cents, and in Minnesota, eighty-eight cents. In 1897 the loss upon each one hundred dollars of insured property over the entire United States was fifty cents; in Canada, about seventy-one cents. In Great Britain it was about nine cents; in Italy, about six cents.* Thus it appears that the actual losses on insured property in the State of New York on the average of seventeen years were less than one-third of what they were in Texas, and in

* These figures are approximate and are based upon the experience of a few companies only, the statistics available not supplying complete information upon this point.



Massachusetts less than one-third of what they were in Idaho. Why these differences? Each of us is at liberty to form his own conclusions as to the cause, the results are indisputable, and with the results the underwriter has to deal.

There is one condition in the insurance policy which experience shows to be necessary in an equitable adjustment of the rate, but to which the public generally are opposed, because, it is believed, of a misunderstanding of its real purpose and necessity. I refer to what is known as the "Co-insurance Clause." The element of fire may be regarded as a burden placed by nature upon all destructible property and to guard against which the owner is under the necessity of paying a tax in the shape of an insurance premium, unless he is prepared to assume the risk himself. As collectors and distributors of that tax an obligation rests upon the insurance companies to levy it fairly and equitably. This, I claim, cannot be done unless the premium exacted is made proportionate to the value of the property protected. The Manufacturers' Mutuals in New England, which were organized for the purpose of giving protection to their associate members against losses by fire, recognized at once that there could be no equal distribution of the burden to be borne unless the premium were assessed upon a uniform valuation. In these

mutual associations we have a body of manufacturers forming a co-partnership with each other for the purpose of securing protection against loss by fire at the very smallest cost at which such protection could be supplied, and their intelligence at once detected the necessity of providing some way by which the premiums necessary to be paid to secure the protection needed could be equitably assessed upon each partner. Instead, however, of inserting a co-insurance clause into their policies they had each risk separately valued by experts, and upon ninety per cent. of the value thus ascertained the yearly assessment was made, a practice which has been continued up to the present time. This method of securing an equitable assessment upon the property insured could not be carried out by the insurance companies, for the reason that the cost of making the valuations would almost equal the premium which is charged by the company for assuming the risk, and, besides, the fluctuating values of merchandise would make such a system impracticable with us. The co-insurance clause, under which the liability of the insurance company is limited to such proportion of the loss as the insurance bears to the value of the property insured, substantially produces the same result. It leaves the assured free to carry as much or as little insurance as he deems

needful, but it fixes the proportion of the loss recoverable from the company in the event of fire to such as the insured has chosen to pay for. If he insures for one-half of the value, he recovers one-half of the loss, be it partial or total ; if the whole of the value, the whole of the loss. There is, and can be, no inequity in this. The practical effect of any law, indeed, which prohibits the use of this clause is in the interest of the plutocrat rather than in that of the man of moderate means, since the former can afford to take chances which the latter cannot, and the rate of premium being based upon general experience the wealthy property owner who under-insures his property does so at the expense of the poorer man whom necessity compels to protect it for its full value. It is believed that the universal adoption of the co-insurance clause, as in Germany and France, and largely in Great Britain also, would enable the companies to concede an average reduction in the rates now current of not less than ten per cent.—an advantage which would accrue chiefly to the poorer classes of the insured. In several States of the United States the use of this most equitable condition is prohibited by law.

From what has been stated it will appear that substantial equality of treatment for both native and foreign companies exist the world over, in the

privileges enjoyed and in the burdens to be borne. They ask no more ; they deserve no less. The foreign company, by which I mean that company only which enjoys an international reputation, adapts itself to all these varying requirements. Loyally observing the laws wherever it plants its flag, it pursues its business under the conditions as they exist. It makes a deposit where a deposit is required, and when discouraged by the results of its venture it withdraws and gets its money back—if it can. Wherever the merchant takes his property there it follows to protect it, recognizing that its mission is to supply that necessary indemnity at the lowest possible cost consistent with safety. In the large cities of the world, where the amount of business justifies it, it establishes branches managed by competent underwriters. Where the business is limited it appoints as its agent a leading merchant, regardless of nationality, whose standing inspires the respect and confidence of the community, and to him it grants authority by power of attorney to issue policies, to adjust losses and to draw upon the parent office for such sums as may be needed to meet its losses, which drafts are readily cashed by the local banks. By so doing it supplies to resident property owners all the advantages of a local institution supplemented by the security of its entire re-

sources which are thereby made immediately available at the place where the cash is needed. Year by year, as the results of its business permit it, it is continually strengthening its reserves. Where there are native companies it co-operates with them in sustaining safe and correct practices in underwriting. Where the policies of such native companies are preferred it aids them by way of re-insurance, and where, on the other hand, its policies are given the preference it shares with the native companies such surplus lines as it does not deem it prudent to retain. In the adjustment of losses it takes no advantage of technical breaches of the contract, but meets honest claims from the standpoint of equity and fairness. There is scarcely any town in the civilized world in which it is not transacting business in some form or other, directly or indirectly. Its ambition knows no limit. It is always reaching to a higher level, and while periodical conflagrations temporarily deplete its funds, its surplus goes on increasing. It never rests satisfied. Some stigmatize this as *greed*. I prefer to call it *enterprise*. In this country the returns show that it enjoys in a marked degree the confidence of the people, and after fifty years of trading, involving transactions of hundreds of millions of dollars, it can be truthfully averred that no property owner in the United States has yet

lost a single dollar of that to which he was entitled under any policy issued by a foreign insurance company regularly admitted to do business within its borders.

Such is the FOREIGN FIRE INSURANCE COMPANY, and such its BUSINESS METHODS.

ELIJAH R. KENNEDY :

My discussion of Mr. Beddall's topic will have reference to his entire paper, which I have been privileged to read, rather than the very small portion of it which you have been permitted to hear. It is the most important paper which was ever prepared on the topic. It contains the only complete compendium of the methods of foreign fire insurance companies as controlled by the legislation of various countries, and of the business methods voluntarily adopted by the various offices, and it deserves a place in the next edition of the Encyclopedia Britannica, where we look for thorough treatises on such subjects. I have generally to agree with my friend Mr. Beddall in what he has written in his paper, but as you have not heard much of it I have the opportunity to bring out some of its points.

I deduce from the paper that a foreign company operating the world over, and engaging in each country the ablest staff that it can for that country, derives thus the advantage of a miscellaneous, cosmopolitan, world-wide experience which makes the head managers of foreign companies, not more able, but of broader experience than the managers of American companies, who have so far been contented to confine their business operations to their own country.

Another point that I deduce from Mr. Beddall's paper is that the usual taxation of the fire insurance business is not so high in most countries as it is in this. Scarcely anywhere, except in Russia and the United States, do the tax laws discriminate against foreign companies. Nowhere is a foreign company subject to more arbitrary laws or despotic administration than in the United States. These, gentlemen, I assure you, are fair deductions from the painstaking and exhaustive treatise which Mr. Beddall has printed, giving us a summary of the laws of all the civilized countries of the world. Only in some American States, among them New York, does the government undertake to prevent a foreign fire insurance company from availing itself of the protection of courts created especially to consider disputes between citizens of different States. New York does not attempt a straightfor-

ward prohibition of an appeal to Federal courts ; the unconstitutionality of such an enactment would soon render it void ; but, with discreditable ingenuity, it requires the foreign company, as a condition of its being licensed to do business in the State, to stipulate that it will forego the exercise of the right guaranteed to all persons by the Constitution of the United States. No such condition is required of companies of other States, and even in New York this stipulation is demanded only of foreign companies admitted subsequent to 1880.

Only in some of the American States is a foreign company doing business the world over compelled by law to pay to policy-holders in some cases more than the value of their insured property destroyed by fire. Mr. Beddall's researches show that every other government provides, as, indeed, do most of our own States, that property owners may not collect, as the result of fire, more than the value of property destroyed. The philosophy that would make death welcome in its relation to life insurance, and a shipwreck a beneficence in its relation to marine insurance, is identical with the principle, incorporated in the laws of several American States, that a fire is a wholesome and welcome occurrence and that the man whose carelessness, neglect, or crime causes it is to be rewarded by a payment in excess of his actual damage. The foreign

company finds in other lands that wilful destruction of property is discouraged by law. In these several American States I have been referring to it is compelled to adapt its business methods to exactly the opposite principle of legislation.

In the entire world the only place where the law requires one company to pay, not only its own losses, but, in certain events, the losses of another company, is an American State. The strong foreign company receives no premium for thus guaranteeing the solvency of another company. It is not even allowed the right of choice as to companies whose policies it must thus guarantee. As between reliable honest solvent companies and dishonest unreliable insolvent companies, such a law is absolutely in the interest of the latter class and is unjust and oppressive to the former.

Mr. Beddall's paper arrays, in an impressive manner, the mass of inconsistent, incongruous, vexatious statutes to which a foreign company must bend in doing business in the United States. To some extent there is the same perplexing diversity of laws regulating other matters, notably in respect of marriage and divorce. A man may be lawfully married in New Jersey, where he makes his domicile, but when he crosses the ferry to New York City to attend to his business he may find himself by the law of New York a bigamist or an

adulterer. This anomalous condition of our laws in respect to several subjects has received much attention from jurists and statesmen, but, so far without any relief, and the rectification and assimilation of insurance statutes, to which Mr. Carr referred with a felicity and cogency which make it unnecessary for me to further discuss the matter, might well furnish a national convention of the importance and influence of this with a theme to engage its attention until it had mastered the task. For the present condition of insurance methods as regulated and obstructed by law is one of difficulty and danger to the honest and the unsuspecting, while it is one of opportunity and advantage to illegitimate and clandestine operators. Let me refer to one instance, that of the miscreants named Anthony, who have for about twenty years preyed upon those ready to buy cheap and nasty insurance all over the country. Father and son have kept their place of business during all this time in the city of Brooklyn. They have robbed premium payers in every State in the Union, not excepting their own State. Insurance Superintendents from several States have endeavored to suppress them, and yet no State nor all of them—not even the Empire State with its great power of administration, has been able to seriously hinder or check the scoundrelly operations of these men who have been

selling policies of alleged companies that never had even corporate existence—names on policies of things that were alleged to be companies but that were not companies. One New York Superintendent did get one Anthony into jail for thirty days, and I believe he was once locked up for a short period in New Jersey ; but at last, State supervision having failed to prevent the continuance of his business, the surviving scoundrel has been arrested for fraudulent use of the United States mails in sending his circulars and documents and alleged policies around the country.

While I shall adhere to my promise not to go over the ground so well covered by Mr. Carr, the matter of the assimilation of insurance laws is so extremely important that I will venture upon a suggestion or two. In the first place, then, let me say that I believe no such general codification can be made with the best results unless those who are to administer the law are assisted in their task by those who are to be most directly affected by the law, namely the fire underwriters themselves ; and as not all insurance superintendents are themselves lawyers it seems to me that men of the highest standing in the legal profession, men especially familiar with adjudicated insurance law, ought to be retained for such conferences as would be necessary in completing the great task outlined by Mr.

Carr. When the insurance enactments of New York during a long period of years were being brought together, assimilated, and codified a few years ago, the New York Board of Fire Underwriters instructed its proper committee to assist the State Commissioners on codification. The committee retained a lawyer pre-eminent for his learning in the law of our business, and the assistance we gave to the State Commission was very generously recognized by the Commissioners. I have no hesitation in saying that if your convention, or your association, will take up this matter in the spirit of Mr. Carr's suggestion, the underwriters will meet you in entire good faith and will lend you practical and well-informed assistance.

Mr. Beddall has referred to the indubitable benefits that have been conferred upon the community by the adoption, first in New York and subsequently in a number of other States, of a just and equitable standard form of policy. I read Mr. Beddall's remarks upon that subject with some personal pride, I confess, because I had the honor to be chairman of the commission that made that policy, and the gentleman whom we in New York are accustomed to look upon as the leading fire insurance lawyer of the United States told me that he never did for himself so unprofitable a summer's work as to advise us concerning what was law and

what was not law in the preparation of that policy, for the policy, he said, had well nigh abolished misunderstandings and consequent litigation between the insured and the companies wherever the policy was used. Now, if the adoption in some States of a standard form of equitable policy could effect such a desirable result, why would it not be well for the insurance commissioners of the United States to do as the State of New York did when this policy was adopted and to co-operate in an endeavor to establish a uniform and just method of government and administration concerning fire insurance? I think it is well that Mr. President Carr has taken some alarm at, not only the diversity, but at the effects arising from the diversity and the incongruity, severity, and absurdity of much of the State legislation and administration. Doubtless the present effort for a national bureau of supervision will fail, but you may rest assured, gentlemen, if State supervision does not improve—and State legislation, upon which supervision is necessarily based—something, and perhaps National supervision, will have to be substituted for them.

I want, however, to give you a word of caution before you begin such a salutary reform as we are now considering. Don't give us too many laws. Don't incorporate in your code for all the States every freak provision you may find when you

scrape together the mass of statutes of each State ; for I do not hesitate to declare that most States have too many insurance laws and several States have some very bad laws. I have no personal application in mind. Those of you with whom I am acquainted will certainly acquit me of a desire, or even a willingness, to condemn your intelligence, your fidelity, or your zeal, in the administration of your offices. And those of you who know me best will, I think, justify my declaration that I personally have no complaint to make of the administration of insurance laws. I am discussing a system and its gradual development and present conditions—a system that has been largely created and fostered by your predecessors. Let me say, then, that your laws and your system have already gone far beyond the reasonable purpose of government supervision of our business. Just now, and represented in this convention, there are States that want to tell us exactly how we shall do the business which we have studied all our lives. Superintendents who never wrote a policy, who never inspected a risk, who never stood up against the desperate rivalries of competing agents, who never had any experience in our business, with companies or with the people whose credit depends upon their procuring fire insurance, have undertaken to direct just how we

shall and shall not carry on our affairs. I believe you have not trenched so far upon life insurance management, or marine, or any other branch ; but State supervision has entered so far into the regulation of our working methods that you appear to have overlooked the first and proper function of supervision, and have neglected to prevent insolvent companies from preying upon your people. While weak companies have been allowed to go on unhindered, strong companies have been hampered and vexed and annoyed and restricted in the natural outworking of business enterprise and energy and strength. You have become so accustomed to supervision beyond its proper field that suggestions for the restriction of competition, for limiting and actually diminishing the supply of insurance, for "restraint of trade," for confining the enterprising to business methods satisfactory only to those entirely lacking enterprise, for arraying the taxing power of government on one side in the active rivalry of companies ; that proposals to still further meddle with business methods approved by the wisest and the strongest companies—suggestions originating in the minds of excited rivals—are complacently and patiently discussed as though they could be the proper subject of laws. You have become so accustomed to the idea that every complaint uttered by certain companies and agents

against other and just as good companies and other and equally good agents should be instantly cured by legislation and administrative interference, that requests which ought to receive no attention except resentment are considerably entertained and too often granted, and your great influence upon legislation is dragged into business disputes far below the proper stand which insurance supervision ought to take.

Mr. Beddall's compilations show that only in Russia and one or two other countries of kindred character is anything found in insurance law or administration resembling our so-called "discretionary power." Nothing like this despotic power has been conferred on any officer or magistrate of this country in any other department of government or as touching any other business interest. The chief executive of a State may restore rights to a man who has forfeited them by crime, but the insurance superintendent appointed by that governor may deprive a fire insurance company of everything it has gained by the investment of large capital exclusively for the protection of the policy-holders it has in that State, by close compliance with every law, and by most honorable business methods, merely by declaring that in his judgment the public interest would be thus served. From such absolute decision there is no appeal whatever to court

or other department of government. The Anglo-Saxon principle that every man is entitled to his day in court is thus rendered of no value in respect to a foreign insurance company. The law of every State gives every other party, personal or incorporate, this right to his day in court. But the foreign fire insurance company may at any moment see its business annihilated at one swoop by the exercise of this "discretionary power."

Some little knowledge of business methods applied to Mr. Beddall's statement of legal prohibitions warrants me in declaring to you that rates are lowest, generally, and the business is done most satisfactorily to the public, where legal hindrances are fewest and law and administration offer least obstacles to the principles and methods of fire underwriting voluntarily adopted by fire underwriters. This convention does not need argument to perceive the obvious inference from such a statement. Where laws and administration have been hostile to the companies the companies have been compelled, and have generally been able, to recoup themselves out of the premium payers for the burdens inflicted by unfriendly statutes and despotic superintendents.

Now, I do not go with Mr. Beddall to the length of saying that the insurance business should be as free as the grocery trade. The Almighty made

grocers, and if they sell us wilted vegetables and adulterated sugar He will probably take care of them in His own way and in His own time, albeit the State undertakes to assist the Almighty with considerable machinery for the punishment of malefactors. But the State, having created these artificial persons called corporations, and among them fire insurance companies, has, it seems to me, not only the right, but the duty, to keep an eye upon their operations. I do not mean an eye and a fist, with perhaps the addition of a bludgeon.

Now, in respect of business methods of foreign companies such as are adopted by the free will of the managers and are not enforced by government, I may mention a few particulars. It is common in the United States for American companies to compete not only with other companies, but with themselves. I am told that in one American city one company has a hundred agents, each going about telling people how much better and cheaper he can procure their insurance than anybody else. Thus the normal and wholesome competition which should be relied on between companies has been rendered abnormal by the creation of an army of parasites all endeavoring to make their living out of premium payers to one company, when one agent with a few solicitors would do the work better and very much cheaper. Multiple agencies are absolutely un-

known to the business methods of foreign companies except when those companies have to come into competition with some American companies on their home field. This feature of excessive competition, I repeat, is a nuisance, with absolutely no good public result, but with the effect of finally diminishing and destroying many of the competitors.

It is the common practice of foreign companies in their home fields to write large lines upon single risks, often, indeed, the entire value of properties such as hotels, dwellings, palaces, warehouses, and factories, and to diminish the actual risk which they carry by dividing the amounts of their policies among neighboring companies in the way of re-insurance. This enables competition to be applied in a large way, and at the same time cultivates a friendly reciprocity of patronage among competitors. It justifies a policy-holder in giving to his insurance the time necessary to deal direct with the underwriter, whether at a head office or at a branch office conducted by a thoroughly respected and competent manager, and relieves him of the necessity which he is under in this country of employing a broker or middleman, or whatever you may denominate him, to divide his insurance around in scores of small policies. The foreign method, moreover, adds dignity as well as emolu-

ment to the work of the local agent or branch manager, and is to the best interest of all concerned—thoroughly better than the American method of doing a puttering retail trade where wholesale would be more convenient. I say it adds to the dignity and to the emolument of the local agent, just as the seller of a case of calicoes is a more important salesman than the counter jumper who measures off a few yards. Opposition to the practice of re-insuring portions of lines has been engendered in some States, but I venture to assert that this opposition has been based, in the first instance, upon a supposed but mistaken consideration of the interests of certain local agents who did not happen to be the fortunate men who could write the large lines, and that where such opposition has been taken up by the State the subject has never yet been thought upon fairly in its relation to the public advantage and welfare. The attempt to thus forbid re-insurance has been made in New York State, but the legislature and the insurance department have so far taken the side of the merchants and manufacturers, and succeeded in defeating the attempt to secure the enactment of laws in restraint of trade. Provided a company insures no more on a certain risk than it is permitted by your laws to insure; provided it carries no more at risk on one property

than the proportion of its available assets which the consensus of the laws of the various States approves ; why should any State forbid such a company to reinforce its policy by the policy of another company which may agree to pay a share of its loss in the event of fire ? Such re-insurance, by another company, of the original underwriter is like the endorsement of commercial paper. Would a bank that was willing to discount a note for \$10,000 on the name of its maker object to having a good endorsement without additional cost ? And yet this endorsement is exactly analogous to a policy of re-insurance. Mind you, the original underwriter is compelled by your laws to maintain, in the hands of the trustees appointed to protect the rights of policy-holders, an unearned premium fund based upon the gross premium on the policy without any consideration of re-insurance, thus giving the policy-holder the double protection of the funds held by such trustees and of the funds which the original company may be able to demand from its re-insuring company, and, further, the original company is required by your laws to pay its taxes upon premium and its taxes upon assets based upon the premium without regard for the fact that part of its risk has been re-insured.

I regard Commissioner Fricke's suggestion, which Mr. Beddall has so ably expounded and

discussed according to his own ideas, as the most important that has been made for the benefit of the fire insurance business in the United States in many years, and I agree with Commissioner Fricke in regarding it as possible and reasonable to require from the companies such statements of their losses on certain classes of physical hazards as to render it practicable for the State to compile such data as is done now in mortality tables for the life insurance companies. A state that can extort from a fire insurance company all the facts that your annual statements require, and receive, including the "loss and gain" affair that brother Betts finally triumphed in, can get anything, and certainly can get from the companies a clear showing of their losses upon certain kinds of business that will enable, by comparison with other States, the results which Mr. Beddall has so ably outlined, to be arranged and tabulated and promulgated, and to thus, for the first time, establish an accurate basis for the making of rates.

I dissent from Mr. Beddall's suggestion that even an insurance superintendent could make a good tariff of rates with such data as are proposed. It is about the worst thing I ever heard. Gentlemen, the greatest mistakes are made by our greatest men. You give us the mortality table of saw mills that you give the life insurance companies of men

forty-two years old and we will make fair and competitive rates on saw mills, just as life insurance companies make rates on men forty two years old, and we will make them so low that only economically managed companies can exist and write at those rates, and the inexorable law called "survival of the fittest" will then assume its proper relation to our great business. I suspect that rates made by State authority, and especially by a rate making superintendent dependent for his position upon popular vote, would not have reference so much to the fair and equitable rights of stockholders whose money is at risk in the just expectation of earning reasonable dividends upon their investment as to securing a large vote as the reward for making low rates.

I rejoice at such discussions as we have had to-day, for I have faith in the ultimate triumph of common sense among the American people.

HENRY H. HALL :

MR. BEDDALL has prepared a very instructive digest of the laws governing the business of insurance in various countries of the world and this compilation is a valuable contribution to insurance literature.

It appears that all enlightened countries have found it desirable to have certain governmental control and supervision of the corporations engaged in the various branches of underwriting. There are good reasons for such surveillance over this class of corporations not applicable to other classes of corporations, inasmuch as in all branches of underwriting the contingencies for which indemnity is provided are, more or less, speculative and long deferred, and this being the case, there arises a necessity for ample provision for such contingencies, however remote, which must be provided for with exactness and not affected by oversanguine temperament of Managers.

Experience has demonstrated correct formula for the reserves requisite for the various classes of hazards undertaken and with a proper form of statement, honestly made up, it is an easy task to determine the relative solvency of the company making it.

This appears to be the extent of governmental supervision in foreign countries, to wit :

First, a detailed statement of the assets of a company.

Second, a correct statement of its liabilities.

The penalties for fraudulent statements are, and should be, severe. Nothing more than this appears to be asked for, and the experience of many

years has demonstrated that nothing more than this is necessary for the protection of the public.

The laws of all foreign countries appear to hold the stockholders of insurance companies to a strict accountability, and when the liability of stockholders is limited the extent of a stockholder's liability is far in excess of the amount of cash capital actually paid in. This provision is in marked contrast with the statutes of certain of our States that permit the segregation of assets for preferred creditors and offer a premium for such preference by permitting the companies to pay higher dividends than would be the case if their entire assets were available for the payment of their losses.

In this respect we notice the greatest difference between the insurance laws of the various States of the Union as contrasted with those of foreign countries. The enactment giving preference to certain creditors was a successful attempt to secure special legislation favorable to a certain class of companies. Such attempts would not be successful in a foreign country and should be discouraged in our own. The interests of all companies doing business in the United States are identical and the more honorable companies do not favor appeals to legislatures for the advancement of individual schemes or the protection of special interests.

Publicity of accounts ; severe penalties for fraudulent statements ; immunity from paternalism in the management of the business ; full liability on the part of stockholders—these combined have raised the credit of foreign fire insurance companies and fully protect their policy-holders ; and what more is necessary ?

It will be seen by Mr. Beddall's paper that in certain countries the difficulties in the path of new companies in competition with older and stronger companies are removed, and the writer is of the opinion that some consideration might properly be shown to new companies in this country by a graduated reserve, less stringent the first two or three years of a company's operations, gradually approaching the pro rata reserve now required.

No public interest requires any further detail of a company's management beyond a statement of its assets and liabilities, the salaries of its officers ; its receipts and losses in each State should not be asked for or published except for the purpose of securing information for the collection of taxes the statutes of the State imposes. To spread broadcast the results experience has secured is inequitable and unnecessary for public protection. An insurance trust is impossible. No business venture is easier to undertake than the organization of a fire insurance company. No expensive plant has to be

acquired, no right of way secured, a few weeks advertising of intent, a small expenditure for office furniture and stationery, and a new company can be formed ; and the organization of such companies is automatic ; a few years of comparative immunity of losses, the great reduction in the supply of insurance capital by a large conflagration, and new companies rise up with almost the rapidity of the growth of Jonah's gourd and yet there have been insurance superintendents who have allowed themselves to believe that no fire insurance monopoly is possible.

With the establishment of an insurance department in New York and of a similar department in Massachusetts, the purpose of both departments was declared to be to shield both the public and insurance companies from fraud and injustice. It was expected that the departments thus created would not only protect the public from fraudulent companies, but would be the advisers of the legislatures in insurance matters, protecting the companies from crude and ignorant legislative schemes. So clearly was this expressed that judged by the intent of the purposes of State supervision as originally expressed whenever the implied object of a bill is to make it impossible for a legitimate insurance company to make a fair profit and no protest is made by the insurance commissioner, to this

extent he is false to a true conception of his duty, though less obnoxious than when he avows this result to be his purpose in the administration of his office.

The foreign companies have entered the United States fully willing to abide by all restrictions placed upon domestic companies. They are, or should be, willing to submit to the same test as to solvency—the same publicity as to their accounts, and should expect to suffer the same burdens of taxation that false theories of political economy place upon domestic institutions.

Appreciating fully the value of the paper of Mr. Beddall in the information given, we cannot approve the invitation extended to the forty odd insurance departments to assume in any degree the management of the companies or the naming of rates to be charged for insurance.

The writer can get no encouragement for such a request as the one made from the compilation of insurance laws of foreign countries that has been presented.

The purpose of governmental supervision in all other countries, without exception, is to minimize the demands upon companies—small demands but rigid penalties—is the lesson taught.

Before asking of the various Insurance Departments to take upon themselves additional respon-

sibility for the management of companies, it is well first to inquire the limits of the discretionary power now given them by existing statutes; that any vagary can be indulged in by the exercise of the discretionary power now vested in them without some degree of judicial control, we cannot believe. The channel of this discretionary power will ere long be clearly defined by judicial action, and to this the honorably managed companies must wait if they expect to retain a proper control of their corporations and to protect the interests of their shareholders. A large proportion of these shareholders are dependent people who have come into possession of their holdings by inheritance, and their interests should be safeguarded as carefully and have the same protection at the hands of the law as holders of other property.

In the light of recent illustrations of capricious exercise of so-called discretionary power, the danger is not imaginary, and the companies may with confidence appeal to the General Convention to which this is addressed.

May we not expect a clear statement of the true purpose of insurance supervision? If it extends beyond the few simple requirements the larger experience of foreign countries has found to be requisite, what then are its proper limitations, and to what extent is it desirable to go to serve the

purposes for which it was created? Can there not be erected a barrier behind which a company pursued by a corrupt official or one eager for notoriety can stand and present as a limitation of discretionary power the deliverance of a Convention of the Insurance Superintendents of the United States? For this we appeal, for confronting us is a series of protracted suits at law upon issues that would never be raised by the great majority of Insurance Superintendents of the United States.

An interpretation of the true scope of an Insurance Department by this Convention will prevent arbitrary action of the character already experienced and be a guide to the courts in the contests certain to be brought before them if this form of malicious persecution is persisted in. There can be no antagonism between honestly managed companies and an honest insurance superintendent.

The reports of the departments of the larger States frequently bear testimony to the promptness with which the companies respond to all proper inquiries. No objection has been raised to any form of statement devised to reveal the financial condition of a company with exactness.

What, in the judgment of this convention, is the purpose of State supervision?

Insurance superintendents will in the administration of their offices rise or fall to the standard thus created and by it will be determined whether State supervision is true to the purpose of its creation or whether it has degenerated under the withering touch of partisan politics.

ELMER H. DEARTH :

HAVING been assigned to discuss Mr. Beddall's address on the subject of "The Foreign Fire Insurance Company and its Business Methods," I presume that I am expected to take the negative side of the subject. Mr. Beddall, as the leading and sole exponent of the affirmative side, has so exhaustively and ably handled this most important subject, that it is with no small degree of hesitancy and misgiving that I enter the arena of this proposed discussion. In short, he has apparently so thoroughly covered the ground, that it hardly seems possible for one to take up any line of argument or thought in the discussion of this question, in addition to what has been so ably said by Mr. Kennedy and Mr. Hall who have preceded in this discussion, which can possibly be considered of any special interest or value to the gen-

eral insurance public or fraternity. What I may have to say will not, therefore, be necessarily termed as a discussion of Mr. Beddall's address, but as more in the nature of a reference to and criticism of certain business practices, or methods, if you please, which are indulged in by our foreign fire insurance companies, and also a few of what may be adjudged by some of these companies as impertinent suggestions in the way of possible reforms, the purpose of which shall be to secure just, honest and legal protection to our home or United States companies against what I shall presume to term as unjust, unfair, and technically, if not actually, illegal competition of European and other foreign country companies. What I may say must not necessarily be considered as officially stated, in my capacity as Insurance Commissioner of the State of Minnesota, but simply as in the execution of a merely personal duty imposed upon me by your honorable Committee on Programme.

Mr. Beddall's address, which covers 139 pages of printed manuscript, represents a vast amount of careful, patient and conscientious research of the insurance laws and statistical reports covering insurance transactions of the United States and the leading countries of Europe. With the lone exception of Great Britain, he shows that all

these countries have passed laws for the government of fire insurance companies, consequently, I may fairly presume that it is due to this absence of home statutory regulation, that the British companies (although there are others) are so prone to follow what may mildly be termed irregular or unjust methods in the conduct of their underwritings in the United States, this being none other than the practice of entering into a special reinsurance contract with companies of foreign countries, which have never even attempted to legally enter the United States for the transaction of business, under the terms of which contract the company, or companies, writing the original policy, is immediately or automatically relieved from a sufficient percentage of the risk, to reduce the amount of liability assumed on a single line, to the limit prescribed under the statute of the State wherein the risk may be located. By this practice a single company issues a policy covering an enormous line, which, upon its face, flagrantly violates the statute regulating the limitation of hazard that can be assumed upon any one risk. It is also clearly an evasion of the Minnesota statutes, at least, covering the matter of taxation upon the premium receipts, and further tends to limit fair, just and honest competition. By this method a great injustice is worked upon other authorized

companies, especially home or United States companies, which are justly entitled to receive their proportionate share of all the legitimate business which, under such practices, goes to unauthorized foreign corporations, and further works a great hardship upon the local resident agents of other companies by depriving them of a very considerable amount of revenue on the business thus placed abroad, which legitimately belongs to them. This practice should be prohibited by statutory enactments, requiring that all re-insurances of business in the respective States shall be effected solely with duly authorized companies in such States, and all policies covering such re-insurances shall be signed by their authorized resident agents.

I do not wish to be understood as saying that none but foreign country companies are guilty of effecting such re-insurance contracts with unauthorized companies of the old world, for it is well known that certain United States companies pursue the same methods, but it may be presumed that they have been forced to this practice as a matter of self-defense; however, the same criticism applies in all such cases with equal force.

Under the laws of Massachusetts, companies are prohibited from effecting any re-insurance of property in that State in unauthorized companies, and

in his annual report for 1898, Insurance Commissioner Frederick L. Cutting somewhat sharply criticises what he terms as persistent attempts of agents of certain foreign insurance companies to procure a modification of the law in question. I quote therefrom as follows :

“ But in later time an altogether new project has shown itself, which, while having no merit in itself, and in tendency subversive of every effort to keep the business under proper observation and restriction, has attempted speciously to attach itself to the before-named occasional need for extra insurance in justification of its existence. Allusion is here made to the persistent attempts of a few agents of foreign companies to procure such modification of the law as will permit them at once and without ceremony to re-insure any or all of their writings in any companies of foreign countries that best suit their convenience, thus making themselves virtually and actually local agents of companies wholly unknown, which give no employment to our capital or people, contribute nothing to the expenses of protecting the business, but are mere absorbers of whatever profit may result from an unjust, unfair and unnecessary competition. A specious and unworthy plea is the great wealth, strength and honor of the foreign companies, as contrasted with our own.

The direct tendency and inevitable result of the successful outcome of this scheme would be to give a few branches of foreign companies the entire insurance business of the State. It would be a measure of great and profitable advantage to them, inasmuch as it is vastly easier and cheaper to write a policy of one or two hundred thousand dollars and toss it across the sea by mail to be disposed of, than to have to distribute it in fractions among the authorized companies; besides, also, the commission could easily be much more liberal.

Under an evident misunderstanding of facts, the merchants in several cases have been led to lend their influence to this scheme, not one of whom, it is believed, under a fair presentation would have given it countenance. Suppose, for instance, the merchant should sit down and let the boot be fitted on the other foot. Let all laws for the protection and convenience of his trade be repealed, and the door be thrown open to foreign agents soliciting and seducing away his customers, clamorous and zealous for the better commissions their principals' immunity from certain expenses enabled them to allow—does any one doubt that the merchants would think they ought to be protected from such competition by the laws? If the merchant, why not the insurance companies—especially when the latter are willing that it shall be

made easy for the public to procure in companies not authorized the insurance that capital duly authorized to do business here declines to assume.

If this view of the case prevails, and the prohibition which prevents the re-insurance of property in Massachusetts in companies not authorized still remains in force unless authorized capital refuses to take the risk seeking protection, it will be a happy solution of the question."

Commenting upon the freedom enjoyed in Great Britain, where there are no insurance laws fixing a standard of solvency, or regulating the amount of capital under which a company may transact business, and that consequently there is nothing to prevent a company, legally organized, from writing all the policies which property owners will pay for, whether its capital be a hundred dollars or a million, Mr. Beddall asserts that there are fewer irresponsible companies and a smaller opportunity for imposing upon the ignorance of the people in that country than in the United States, where the most elaborate laws exist for their protection. This assertion, taken as an abstract statement, may in a measure be true, but nevertheless it is safe to say that but for our system of Department supervision, there would have been thousands of dollars lost to the citizens of the United States, where there has been one on account of "wild cat"

and irresponsible adventurers. In an old country like Great Britain, all classes of business are conducted upon the most conservative lines imaginable, and where there is one new business venture launched upon the commercial community, there are hundreds in the United States—a fact which holds true in all new countries with practically inexhaustive natural resources which are being developed with such astounding rapidity as in our own.

I surely do not believe that Mr. Beddall would be willing to put himself on record as in favor of doing away with all insurance laws in this country, and thereby compel the public to depend upon the enforcement of the criminal code to protect themselves against the operations of every irresponsible and “wild cat” insurance institution, which would, immediately upon the beginning of such a condition of affairs, multiply by the score, yes, even by the hundreds, and every one of them would find plenty of unsuspecting, credulous people to buy their policies, and that without laying themselves (the companies) subject to the criminal laws that might be upon the statute books.

There certainly can be no question but that the existence of fair, wholesome laws, providing for the organization of insurance companies upon a sound and solvent basis, and for a fair and im-



partial supervision of the same by honest, experienced insurance officials, whose duty it is to see that such laws are fairly and justly enforced, results in the saving of vast sums of money to the general public that would otherwise be lost, or to use a harsher term, of which the people would be robbed, in the absence of the protection thus afforded.

We frequently hear it said that there exists in the United States a feeling of unfriendliness towards foreign fire insurance companies. I will not presume to say that such a feeling, or sentiment, at least in some quarters, does not actually exist. Doubtless many claim that such a sentiment is clearly manifested through the attempts that have been made, and are being made in the legislatures of certain States, to pass a law providing that a discriminating tax shall be paid by foreign country companies.

Now is it true that this effort to secure the passage of laws, requiring that this class of companies shall pay a higher rate of taxation than that demanded of home or United States companies, is an indication that the best of feeling may not exist on the part of our citizens towards these corporations? Can it be claimed that it is unpatriotic on the part of the United States, or unjust to the foreigners?

It is said that in England, American companies are allowed an equal chance, under identical conditions, with the native companies. Commenting upon this assertion a prominent and well-known insurance gentleman, who is well versed in the efforts that have been made, on the part of certain United States companies, to gain a foothold, in a business way, in Great Britain, has the following to say :

“It may be true that the American companies have an equal chance in England with the native corporations, at the same time, the condition is very much like the fable dinner which the fox prepared for the crane, consisting of very thin soup in a very shallow plate. Only two or three American fire companies ever tried to do business in England and they made a failure of it. They did not succeed in getting, all told among them, \$100,000 of annual premiums, and most of this they were obliged to accept as re-insurance of English companies, the English people refusing to patronize them direct, preferring to deal with English companies, as was very proper, loyalty to home institutions being characteristic of English property owners, as it ought to be of American property owners.”

This same gentleman further adds :

“That no single American fire insurance com-

pany ever secured \$25,000 in premiums in any one year out of all England, from English property owners direct, whereas certain single English companies secure each year in the United States upwards of \$5,000,000 in premiums. The Royal Insurance Company (including the Queen, of America, which is owned by it) secures annually over \$6,000,000 in premiums, the foreign companies altogether collecting nearly \$50,000,000 on American business each year, the net profits of which are expended abroad in support of stockholders in London, and other European cities."

Now the net annual profit realized by these companies upon their United States business, as shown by their sworn statements filed with the various insurance departments, is nearly double the net earnings of home or United States companies. This is principally accounted for through the fact that they have no presidents, secretaries, or other general officers in this country drawing large salaries, which is chargeable to their United States business, and also that a very large portion of their clerical work is done in their home offices where labor is cheap, competent bookkeepers being secured for practically one-half what it costs to secure the same class of help in this country. Their United States business is conducted simply as agencies, the business all being reported to

their respective home offices in Europe, or elsewhere.

It appears from the sworn statements of forty-four foreign country companies reporting to the Minnesota Department, for the year ending Dec. 31st, 1897, that the actual cost for management expenses, including commissions and brokerage, salaries, taxes, fees, and all other, per each thousand dollars of insurance written during the year (1897) was \$2.13, while the same expenses on the part of the American companies was \$3.16, this showing a saving, in favor of foreign country companies, of \$1.03 on each thousand dollars of insurance written, or an aggregate saving of over eight millions of dollars; therefore, it is plain to be seen, from the actual experience of the foreign companies, as above shown, that this class of companies could pay a discriminating tax of 7%, as against 2% required of home or United States companies, and still leave a net profit in their favor, on account of all expenses, outside of the loss element, of over 1% on each dollar of premiums received.

It would appear that there could be no valid reason, or argument offered against the enactment of laws requiring said companies to pay this additional tax upon their business transacted in the United States. I do not presume for a moment to take the position that companies of foreign coun-

tries, which are possessed of such a vast amount of capital and resources (as are a few, at least, of those now legally operating in this country) should be discriminated against, in the way of additional taxation, or in any other respect, to an extent that would render their business operations in this country unprofitable, but I do presume to say that it should not be possible for these companies to realize a very much larger percentage of profit on their United States business, than can possibly be earned by our home companies. I do not believe that any one would be foolhardy enough to assume that any of the companies organized under the laws of foreign countries are transacting business in the United States simply from philanthropic or charitable motives. It seems to me that there is no good or valid reason why nearly one-half of the total fire insurance written in the United States, during the past year, for instance, should have been placed with foreign companies.

The records show that the 106 American fire insurance companies reporting to the Insurance Department of Minnesota, as of the year ending December 31st, 1897, wrote insurance in this country to the amount of \$10,865,778,210, while during the same period it is shown that 44 foreign country companies reporting to the Department wrote, in the same field, \$7,818,279,209. Thus it is seen that

the American companies, numbering nearly twice and one-half as many as those of their foreign competitors, secured only about one-third more business. Companies which can come to this country from abroad and secure such a vast volume of business, as above indicated, should certainly not object to any discrimination in the way of taxes, or otherwise, so long as the same does not increase their expense element, incident to the conduct of their United States business, to an amount in excess of that experienced by our home companies.

From the records of the Minnesota Insurance Department I find that the annual cost, per thousand dollars of insurance written during the year 1897, on account of taxes and fees, was, for foreign country companies, 16 cents, while to American companies the cost was 22 cents. This certainly is not just. From these figures it will be seen that home or American companies are actually taxed higher here at home than are the foreigners. Such discrimination in favor of foreign companies exists in the States of California, Delaware, New Hampshire, Maine, Maryland, and possibly one or two others. The annual reports of the California Insurance Department show that the total premium receipts on California business of foreign fire insurance companies operating in that State, covering the years 1878 to 1897 inclusive, were \$46,480,442.88,

and not a cent of tax has been collected from said companies thereupon, while practically all American companies have been required to pay the regular 2% tax under the retaliatory provisions of the statutes. It will thus be seen that the foreign companies were able to earn in this State, in excess of the American companies on a like amount of business, nearly \$1,000,000 during the period in question.

In the year 1885 the State Legislature of California passed a law requiring all foreign companies to pay only 1% on their premiums to the county treasurer of each county in which they transacted business, but even this law was contested by the foreign companies, and strange as it may seem, was declared unconstitutional. This surely is an indication that our foreign brethren are not at all anxious to contribute towards the expenses incident to the running of our American Government or institutions.

In the State of New Hampshire, American companies are required to pay a tax of 2%, as against 1% required of foreign companies. Commenting upon this matter, Insurance Commissioner Linehan of that State, in his last annual report, has the following to say :

“ In January, 1897, the insurance commissioner drew up a bill to amend Chapter 169 of the public statutes relating to foreign insurance companies and

their agents. The occasion for it was this : A reciprocal law had been enacted by the Legislature of 1895. Under its requirements the insurance commissioner was obliged to impose the same fees and taxes on companies of other States, authorized to do business in New Hampshire, as were imposed on New Hampshire companies under the requirements of the laws of such States in which they were authorized to do business. The effect of this was the imposition of a tax of 2 per cent. on the premiums received by every American company authorized to do business in New Hampshire, save those from Connecticut and California. This gave a decided advantage to the companies from foreign countries who were obliged to pay but one per cent., and to remedy this inequality, as well as to increase the revenue of the State, the bill was prepared. It was submitted to the Chairman of the House Committee on Insurance early in the session of 1897, the occasion for it fully explained, and at the time met with his approval. For reasons best known to himself, but quite as well apparent to others, he experienced a change of heart and postponed action in the Committee until March 11th. Before this date the Commissioner had appeared before the Committee and fully explained the provisions of the act. The majority of the Committee voted that the bill ought to pass, but it was not reported to

the House by the Chairman until just before the adjournment on March 26th, when the Secretary of the Insurance Committee forced him to report it. The printed report of the proceedings read, the Chairman defended his action as Chairman of the Committee on Insurance and attacked the Insurance Commissioner as desiring despotic power in his department. The truth of the matter is, the defeat or passage of the bill made no change in the power of the Commissioner. It was too late in the session, however, to consider it, and action was indefinitely postponed. The Insurance Commissioner feels that, in justice to himself, the above facts should be known."

It certainly appears somewhat singular that the Chairman of the House Committee on Insurance, of the New Hampshire Legislature, as an exponent of simple justice and equal rights, as affecting all business interests in his State, should not have used his best efforts to secure the passage of a law that would have required of foreign companies simply the same, or equal impositions as are demanded of home or American insurance corporations, for surely, it would not seem possible that the foreign companies themselves would use any efforts to defeat a measure that was simply placing them upon a like or an equal basis with their American competitors.

The records of the Minnesota Department further show that the foreign insurance companies returned to their home offices—not only during the past year of 1897, but for several of the preceding years—practically double the amount that was paid in dividends and interest by the American companies. In computing this element of profit, consideration was taken of the money—which the sworn statements of the foreign companies show was sent to their home or parent offices, in excess of the amount that was sent to this country during the same period. Therefore, the records show that the net profits of the foreign companies, on the volume of business transacted in the United States, were practically one hundred per cent. in excess of the net earnings realized by their American competitors.

Now it is really hard to conceive of any valid reason why foreign companies should resist the passage of a law, the simple provisions of which are the placing of said companies upon an equal basis, as far as the expense element is concerned on their business transactions in the United States, or in any other material respect, with that of the American companies, and I do not for a moment believe that the most ardent champion of protection for home industries, particularly as applied to insurance cor-

porations, will for a moment presume to ask for anything further than that this be secured. No one has yet asked that there shall be any laws enacted, whereby any greater hardship shall be placed upon foreign companies than upon our own. All that is asked or desired is simply equality, to the extent that our foreign brethren shall be prohibited from effecting contracts of re-insurances of United States risks with unauthorized foreign companies, and shall simply be required to pay, in the way of taxes or fees upon their business in this country, such an amount, for the support of the United States Government, or its home institutions, as shall place them upon an equal footing with their American competitors, as regards the expense element incident to their business transactions in this country. This certainly should not be resisted, or even objected to by the foreign companies, but strange to say, such is not the situation. In all instances where the legislature of any State has presumed to secure the enactment of any statute, the purpose of which was that of simply tending to equalize the expense element of the foreign and American fire insurance companies, the same has met with a most vigorous and persistent opposition at the hands of the foreign corporations. In practically all cases they have been successful in defeating the passage of such proposed

laws, a notable exception, however, being that of the State of Iowa, the legislature of that State having succeeded in passing a law which imposes an additional tax upon foreign companies, and which will, in a measure at least, equalize the expense element of their business transactions in that State, as compared with their American competitors. An unsuccessful effort was made during the present year by the legislatures of the States of New York and Ohio to enact a similar law.

One of the principal arguments used in their efforts to defeat such legislation has been that the same violates the fourteenth amendment of the Constitution of the United States, in that it would illegally and unjustly discriminate between insurance corporations of other States of the United States, as well as of States, nations, governments, or countries other than of the United States. Such argument, however, has been practically exploded by some of the most eminent authorities in this country on constitutional law, and in support of such opinion have cited numerous decisions, handed down by some of the leading and highest courts of the country.

It has been stated by some that the most proper way to adjust this difference, involving the expense element, between foreign fire and American fire insurance companies, would be to relieve the Ameri-

can companies entirely of such taxation, and thereby reduce the percentage of the additional tax imposition that is being proposed for the foreign companies. It is very improbable that such a radical measure, as this would involve, could ever be passed by the legislature of any State, for there are none but what would be very loath to relinquish any such profitable source of revenue for their respective exchequers, as that realized from the taxes upon the business of the fire insurance companies. While it is an acknowledged fact that the premiums are, in practically all cases, sufficiently loaded to cover the additional cost to the companies, on account of all such taxes imposed under the laws of the various States, thereby increasing the cost of insurance to the policy holders to just that extent, it will, beyond question, continue to be a popular method of securing funds to apply towards the support of the respective State governments. Believing, therefore, that any proposition to repeal or modify the laws, covering this matter of taxes, will be impracticable, it would seem that no argument should be necessary to secure the passage of a law imposing an additional rate of taxation upon foreign companies, beyond that which is imposed upon American corporations, so long as such increase merely places them upon a like or equal basis, as regards the expense element

incident to the transaction of their business in this country. This certainly appears to me to be but a matter of simple justice, and to which our home companies are absolutely entitled.

I might also take up the matter of re-insurance, or unearned premium liability, on account of which the foreign fire companies have a great advantage over their American competitors, as applied to their home office statements. Take for instance the English companies. In the absence of any insurance laws in their own country, they are not required to show any absolute percentage of liability on account of unearned premiums on their outstanding business, this being subject entirely to the discretion of the officers. Doubtless, with very few exceptions, if the foreign fire insurance companies were compelled, under the laws of the various States of this country, to file a sworn statement covering their business transactions throughout the entire world, said statement to be made up in accordance with the provisions of the statutes of the respective States, governing the matter of re-insurance liability, the same would show them to be in a state of insolvency. It is safe to say that very few companies would care to have this test, as to their financial condition, applied. I will not, however, presume to discuss this question, as I am personally inclined to the belief, that inasmuch as all

foreign companies are required to place themselves upon the same financial footing as the American companies (before they can legally transact business in the United States) by the deposit of a sum, in acceptable United States securities, equal in amount to that required of American companies, in the way of paid-up cash capital, which deposit must at all times be maintained intact for the sole protection of their United States business; and further, that the same test is required, as regards the standard of solvency of their United States branches, or agencies, thus established, it should be a sufficient guarantee as to the absolute protection of their American policy-holders. There is possibly one vital objection, however, to this idea of relying solely upon the deposit thus held in this country for the protection of their United States business, this being none other than the universal practice of annually sending to the home or parent offices, practically all their surplus earnings or funds. If the same were required to be retained in financial affairs, would in no way interest their American policy-holders. As such a requirement could not be compelled by law, as there could be no valid legislation that could interfere or stipulate as to what shall be done with the surplus earnings of a foreign company, it might be proper that the laws of the various States should

require a full and complete statement of the whole business of the foreign company, and that the report of the American or United States business should simply bear the same relation to the statement of the corporation, that the Minnesota business, for instance, now bears to the statement of the American or United States corporation, and that the same requirements, as to reserve liability, re-insurance, investment of assets, etc., shall apply to the whole corporation, and not only to a fraction of its total transactions, as covered by the United States branch or agency.

Many of the companies are apt, and in many cases do, in the solicitation of business, lay a good deal of stress upon the fact that they have a very large capital and an immense amount of assets in the old country, and hold this up as an inducement for the citizens of the United States to patronize them instead of the Americans. Large capital stock, as well as large assets, are not necessarily an evidence of financial strength. It is the amount of net surplus, above all actual liabilities, which is the real financial test of any corporation; therefore, if the same test, as regards the standard of solvency, was applied in the home office statements of these foreign companies, as that which is applied to the Americans, it is safe to say that a very large majority of the companies would be

very slow to refer in any way to the financial showing of their home offices. There certainly is no question but that, if this country were thrown upon its own resources to furnish its entire fire insurance protection, there would be found ample capital ready for investment to meet the emergency. At the same time, no one should show any disposition to discriminate unjustly against any of the financially sound, law-abiding, foreign fire insurance corporations. They are here and very much in evidence, and there is absolutely no question but what they will continue to stay here, and should certainly be permitted to, but they should not object for a moment to the imposition of any taxes or fees, or other obligations, so long as the same does not result in making the expense element, incident to their business transactions in this country, exceed in amount that which is experienced by our home or American corporations, or otherwise place upon them any unfair or unjust restrictions as regards their business methods.

THE OBJECT AND PURPOSES OF UNIONS AND ASSOCIATIONS OF FIRE UNDERWRITERS.

R. J. SMITH :

THIS is the subject assigned to me, I find, and presumably for the reason that, knowing my capacity, an easy question was propounded, just as the teacher at the school examination asks the dull boy to solve only such problems as are apparently easy of solution.

Unions, associations, compacts, boards and clubs in fire insurance matters are synonymous terms, as a rule, and mean, or should mean, associated effort to afford uniformity in practice and by virtue of the strength which comes to numbers and is denied to single individuals, to enforce by mutual agreement that which the majority may regard as wholesome and safe.

Naturally, such rules, &c., which are thus

adopted are more conservative than the practice of a single individual would be, with the fear constantly present of competitors whom he may regard as less conscientious and more aggressive than himself. For the same reason, the verdict of a jury of twelve men, when free from prejudice, is considered as coming nearer to simple and exact justice, than that of any single individual, no matter how learned he may be in the law. Both are apt to be influenced by popular prejudice and clamor, but when this is distributed throughout the minds of a number of people, multiplied as in the case of a jury by twelve, it is diluted and more likely to be harmless. So in all unions or associations, the action of the body as a whole cannot be more radical than the views of a majority and very often such action for prudential reasons does not go beyond the opinions of a timid minority, as all honest people have an innate desire to err, if at all, on the side of moderation and consideration of the rights and opinions of others.

The popular idea that Unions or Associations among fire underwriters are established solely to maintain prices,—just as the Beer or Biscuit trusts are supposed to do,—is, of course, fallacious and preposterous, as there are a thousand and one other matters almost equal in importance which if uniformity is not observed and proper rules to govern

the same are not promulgated and maintained, the whole system of indemnity fails and grows rapidly into disfavor and disuse. The rapid pace which modern invention and discovery have assumed as regards power, heat and light makes it necessary that all these subjects should be thoroughly investigated as to their fire hazards. The changes constantly taking place in architecture and building material, storage and use of articles of modern invention, which are undoubtedly subject to spontaneous combustion and thus endanger property of great value because of insidious fires ; complicated machines for making new material the nature of which is understood by few ; the great strides made in the use of electricity during the last decade, as well as of oils and their products, to say nothing of the omnipresent, and always to be feared, moral hazard and the changes in the laws of the various States relative to forms of policies, &c.,—all combine to make concerted action on the part of fire underwriters who have to do with all these matters and who are held to full account and responsibility by the capital which employs them, absolutely necessary, even if the question of rates of premium were entirely eliminated from their consideration.

This is an era of evolution and education and we can not ignore the fact that to meet the one and solve its intricate and important problems, we must

have, to the largest possible degree, the other, with all that knowledge implies. The fire underwriter is not only responsible to his employers for the safety of the capital invested, but he bears even a greater measure of responsibility for the financial indemnity, well being and lives of his neighbors and patrons. No underwriter who is at all qualified to be such, can shake off any part of this responsibility, even if he desired, and it is, therefore, natural and proper that, knowing that there is wisdom to be found in the counsels of the many, he should proceed not only to take counsel of his fellows, but also to investigate and learn all he can from that and all other available sources. The banker's responsibilities end when he collects in all his loans and pays his depositors and shareholders their due, but the underwriter's liabilities are continuous and apparently never ending, and he cannot, therefore, be too cautious nor become over educated in his business or profession, as it is often called.

But it would seem to be unnecessary and a work of supererogation to enlarge upon the value of united effort under uniform and conservative rules of practice, to an assembly such as this, as no class of business or professional men is or ought to be better informed on the subject than you, gentlemen, upon whom the laws of your respective States impose the duty of inquiring into and becoming familiar with

all the intricacies, ins and outs, and results of fire underwriting in America.

No one knows better than you, if you have kept pace with the times, that a very large majority of the concerns of all kinds designed to do the fire business, that have been organized either lawfully or unlawfully during the past score of years have proven worse than failures, and hence it is not only becoming but necessary that the intelligent and conscientious underwriters of the present day should feel great concern for the perpetuity of those that have weathered all the storms and escaped the appalling mortality that has overtaken so many. You are also equally as well aware of the very narrow margin of actual profits that has accrued to the business of fire insurance during the last decade, even to those companies that are carefully and ably managed, and if any of you have indulged in careless statements about enormous profits that have been carried off out of your respective States to enrich foreign millionaires, no one better than yourselves knows that such statements are solely for home consumption and are not borne out by the facts which reliable statistics furnish.

I have touched but lightly upon some of the advantages to be expected and gained by associated effort among fire insurance men, and that it is

equally advantageous to the property owner and policy-holder who has even as great an interest in the solvency and safety of the companies as well as the intelligence of the agent he employs, goes without saying. Many an agent has saved his patrons thousands of dollars by prompt and discreet action at the right time and the opportunities for doing this over and over again grow in frequency as time goes on, and yet the information on which he acts comes mainly from his association with others in the same line of business.

There are so many fallacies in the minds of many people about the purposes of fire underwriters' unions that to attempt to even refer to them all in this paper, which must be short, would be useless, and the fact that such documents rarely, if ever, reach the eye or the understanding of those who appear to exist mainly on fallacies and foibles renders it unnecessary. Much has been done during the last twenty years by the individual as well as by the associated efforts of fire underwriters towards educating the public in one way or another. The various fire hazards and the danger of keeping on hand or using certain highly inflammable and explosive compounds, are much better understood by people generally than they were a few years ago, and in this school, object lessons, that carried death as well as great loss of property, by fire,

with them, have taken an important part, as we all know.

Improved building material and semi-fire-proof construction, especially in our large cities, have made great progress, and underwriters, while discounting the clamor and claims made that such cannot burn, are gratified to see that the chances for stopping great conflagrations have been improved, and all this has been brought about by the united efforts of underwriters who disinterestedly sacrificed much of their income in the hope that the general public might at least stand a chance of being benefited by better protection to both life and property.

The most foolish and yet the most popular error still in the minds of some people is that underwriters' unions or associations are for the purpose of advancing rates of premium paid for fire insurance. The record of rapid and material reductions made either voluntarily or by excessive competition during the past five years should afford to the observing person ample and conclusive evidence that such organizations do not and can not in the very nature of things accomplish anything in this way. Too often the organization of fire underwriters is made the instrument for greater reductions in rates than the loss ratios and accompanying expenses will warrant. Many instances of this

kind could be given without going outside of this State and the average underwriter who occupies a responsible position often wonders if, after all, there would not be greater profit and less worry if all organizations were abandoned at least for a time. This experiment is now being tried in New York City and Brooklyn, where, I understand, some of the ambitious companies are taking on enormous lines for a term of several years at merely nominal rates of premium—remuneration which is so infinitesimal that even a microscope would fail to disclose any residue after commissions and expenses are deducted. This, however, is a matter which comes within the province of you, gentlemen, who examine and approve of financial exhibits made to you by the companies, I am persuaded that you will not overlook entirely the necessity of an ample reserve in all such cases.

With the number of competing companies largely increased over what was ever before known in this country and the number of agents, brokers, solicitors, &c., multiplied many times over (and you, gentlemen, must share some portion of the responsibility for both these latter conditions) with a large number of strong and influential companies outside of the unions and acting independently of them, to say nothing of a considerable number of institutions, good, bad and indifferent, which by

the grace of God and the permission of State officials practice overhead and underground methods of underwriting, such a thing as "maintaining high rates" or even moderate rates, is impossible. No other business or profession is subjected to so many expensive annoyances or so much competition of all kinds as ours. The medical profession may be annoyed by the patent medicine fakir, and the legal profession by the shyster, but these are mere flea bites when compared with the troubles and trials of the conscientious and law-abiding underwriter.

Some surprise is occasionally expressed by unthinking people that underwriters should seek to associate together and learn wisdom from each other's experiences, &c. They forget that nature has provided that the beasts of the field, the birds of the air and the fish in the sea have from the beginning of time sought the society and protection that is found only in association.

The merchant, manufacturer and the laborer have all from time immemorial associated themselves together for mutual protection, and you, gentlemen, years ago, came together and formed an association believing it for the good of all to take counsel one with another. Divine inspiration has decreed that when two or three (or more) are gathered together, &c., it will be beneficial to all in the end. So that the "bogeyman" so often

seen in the simple, crude and loosely-bound bodies of fire underwriters should be known by this time and when the searchlight of modern days is turned upon them, they may be estimated at their true worth and not made the scapegoat of interested parties or allowed to furnish ammunition for the use of the average political bummer who trades on misapprehension and misrepresentation.

May we not indulge in the hope and venture to predict that we shall have in due time legitimate and conservative fire underwriters' associations—local or general—designed to conserve and protect the best interests of both the insurer and the insured, and make the indemnity the latter buys of the former safe and unquestioned, and the cost as low as the nature of the business will permit, and may they be regarded as among the necessary and legitimate institutions of the country, to the end that fire insurance may be placed where it belongs—alongside of banking, the adjunct and auxiliary of all kinds of legitimate trade and commerce, whether on land or the high seas.

J. H. LENEHAN :

THE object and purposes of Unions, Advisory Boards and Associations of Fire Underwriters

have been so fully and so clearly set forth by the gentleman to whom that topic was assigned, and whose knowledge and experience are so far reaching, that further discussion of it seems superfluous. I am disposed, however, to briefly express the sentiments I hold on the subject, as it is one of immeasurable interest, yes, of almost vital importance to the well being of the Fire Insurance Business in, that it is the natural method for fostering and propagating it. Herbert Spencer said that "Socially as well as individually organization is indispensable to growth." It is the antecedent of the family and the state; the fundamental principle of human progress in science and the arts, in commerce and in trade, and can no more be dispensed with than the desire for association with its kind can be eliminated from the human heart.

Dr. Capen, President of Tufts College, Massachusetts, in an address on the subject of "College Fraternities" most clearly expresses the necessity for co-operation as follows: "Wonderful achievements have been made by men working single handed and alone. But these are rare. For the most part the great movements are concerted movements. The forward steps in the path of progress are the steps of the collective humanity. If a great principle is to be carried to fruition, it is needful to do more than convert one man to it,

even though that one be great. The principle must be put into the living mass, and so fixed and fired that all shall move together under its impulse." And that this is not only true of great movements, religious or moral, but political and commercial as well, cannot be questioned.

The great expounder of the Constitution in advocating the desirability of concerted action forcefully puts it in these words: "There are many objects of great value to man which cannot be attained by unconnected individuals, but must be attained, if attained at all, by association." The past reveals and history records that in the several walks of social, professional or commercial life organization is the *sine qua non* to growth, progress and assured success.

Confining our attention in the application of these conclusions to the question of the objects and purposes of organizations and associations of fire underwriters, we are led to briefly examine the effect of such organizations or associations that the cause for them may be the more clearly evinced, and their purposes the better understood. The term "Underwriter" is derived from the method adopted in the earlier period of the business by which each individual of an association designated his acceptance of liability on a given risk. The Lloyds of London, originally an asso-

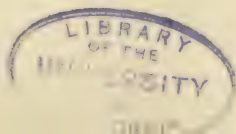
ciation of Marine Underwriters at Lloyd's Coffee-house, dates back to the 17th century. Re-organized in 1811, and by Act of Parliament incorporated in 1871, its main objects being the transaction of the business of Marine Insurance, the protection of the interests of its members and the collection, publication and diffusion of intelligence and information with respect to shipping; three prime objects indissolubly joined and assuring the success of the undertaking. The carefully collated information on which is based the underwriter's estimate as to character and rate and protection to members secured by unity of action. So far reaching and powerful became its influence that it has been justly designated the bulwark of England's greatness in the Maritime world. The effect of these organizations in more modern times, though unknown, or at least unappreciated by the average citizen, may be recognized in their advocacy and support of such measures as tend to improve the conditions of the business and redound to the public good. Fire ordinances and restrictions, development and improvement in fire department and water service; and in this particular alone the good work of these associations has been of incalculable value to the people of every city and town of any importance in the country, affording the desired protection to

their property and immunity from the devastating conflagration. I believe that I am justified in the assertion that to these associations is due more of the credit for the advances made in fire-fighting facilities and improved water supply which have marked the more recent years, than to any other source.

The organized insurance companies' rates, based on the conditions of fire protection, was the force which compelled recognition and made the issue directly between the citizen and the civic authority. It was "Old Mother Goose" *redivivus*. "The water began to quench the fire, the fire began to burn the stick, the stick began to beat the dog, &c." These facts fully understood by the public as they should be, and the predatorial legislator would find himself with his hands in his *own* pockets, his occupation gone, for the sense of justice which innately belongs to the American people would resent his unwarranted interference. Improved building laws and regulations; suggestions and requirements as to improvements in specific risks, and recognition of same by material reductions in rates. The Fire Marshal, one of the most important and valuable officials in the State organization, though efforts in the direction of securing the adoption of that method in the west have not met with any degree of success, so far.

The record of the efficient services of that official in the State of Massachusetts alone is the strongest argument in favor of the system. The organization and support of the Fire Patrol and Salvage Corps, Watchmen and Detective Service, and the means of punishing arson and incendiarism—the statement of the Committee of the National Board on this latter subject at its last annual meeting is interesting, and I will quote its salient points: “Since the establishment of what is known as the Incendiarism and Arson Reward Fund, which is maintained by a number of the companies, through the National Board of Fire Underwriters, affording the means for the arrest and punishment of the firebug, by the offer of a substantial reward for his conviction, there have been over 4,000 rewards offered, amounting to \$1,414,350. 216 have been paid, aggregating over \$65,000, and resulting in 305 convictions. During the past year there were 240 rewards offered, amounting to \$71,000, and eight paid, aggregating \$2,400, securing nine convictions with sentences averaging four years.” This is part of the work of Fire Underwriters’ Associations carrying the burden of the State and civil government, not only regarding proper facilities for fire protection, building ordinances, patrol and salvage corps, but police duty as well, for all of these supported and fostered by such organizations and

boards practically extend protection and relief to the entire community. If these suggestions may be accepted as some of the results of organizations among fire underwriters, may we not infer that the object and purposes of such associations are the upbuilding and improvement of the condition surrounding the business and all that is collateral to it, rather than to lower, and circumscribe them. If we can fairly claim that beneficial results should indicate a worthy purpose then, to conduct the business in the safest and most conservative manner, to estimate and establish equitable rates, to inspect and improve the characters of risks, thereby rendering them better and cheaper to the insured, less hazardous as an exposure to his neighbor, and more desirable to the insuring company; to organize and maintain patrol and salvage corps, watchman, detective and police service; to protect the agent in the integrity of his business; to advocate and secure improved building laws; to examine and point out the dangers of inflammable oils carelessly handled, electrical equipments improperly installed; to enlist the services of the trained scientist, the skilled mechanic, the expert builder in devising the best methods of construction and protection, and to collect and disseminate such valuable information to the world, are worthy purposes and entitled to commendation



and support, instead of mendacious attack and unwarranted persecution.

We may not have attained to that higher plane of perfection in these Unions or Boards, they may be crude, faulty and inefficient in many ways, but they are based on the principle of the greatest good to the greatest number, and are doing the work, as a whole, honestly and well. Malcontents there are, and grumblers who can see no good in any movement which appears restrictive to them no matter how general the benefit may be. And others whose devious ways can never conform to a definite regulation. From such as these emanate the hue and cry against the unholy alliance, the unrighteous combination, and to them may be ascribed, in part at least, the astounding legislation in the line of anti-compact measures which have marked the past fifteen years. Originating in Michigan in 1883 and followed in 1885 by Ohio and New Hampshire, 1889 by Kansas, Missouri, Nebraska and Texas, 1891 by Georgia, 1893 by Missouri in Anti-Trust law, which was amended in 1895 to include Fire Insurance Companies, 1896-7 by Iowa, Alabama and Wisconsin, 1898 by Virginia, and now in force in thirteen States of the Union. Though known to you all and frequently used, I cannot refrain from quoting the language of your worthy Vice-President the distinguished

Commissioner of Wisconsin, in his 1898 report, which bears so strongly upon this subject: "There is a widespread conviction that there is a strong combination on the part of five insurance companies through Unions, Boards or Underwriters' Association to fix and maintain rates and that the panacea for this evil is the Anti-Compact Law. In no State, however, in which such law has been adopted has it promoted competition or reduced rates. Associations, Boards and Unions under the present method of conducting the business of fire insurance are really a necessity. Without them and the interchange of experience, and the adoption of correct methods and uniform practices, the whole business of fire underwriting would become demoralized and the policy of fire insurance become a gambling contract."

To some of the members of the State Legislatures the word "corporation" is the synonym for mendacity, and they deal with it in accordance with that broad and well-known formula, "*Similia similibus curantur*." As Mary of England was haunted by the fateful name Calais, so are they in terror of anything that echoes corporation, and if the word insurance precedes it, the most stringent enactments which their law-making machinery (working overtime) will produce can alone give them relief. Witness the repressive and unjust

measures of recent years ; unequal and discriminatory tax laws ; anti-everything that smacks of co-insurance, and that travesty on justice and fair dealing, known as the Valued Policy Law, which originated in this great State of Wisconsin and became epidemic in the entire sisterhood, though it did not take with all of them. The talented editor of the *Weekly Underwriter* tersely expresses his views of it as follows : "I do not believe the fire underwriter has anything to fear in a business point of view from a Valued Policy Law which merely covers buildings, and no honest property owner has anything to gain by it. It is purely a device to benefit rascals, and the rascals who own real property are too few to cut any figure in the total." Nevertheless it is based on a glaringly false principle and must have been conceived in the brain of some disgruntled claimant whose over-insurance proved a stumbling block to his honesty, and whose attempt at fraud was disclosed by the X-ray of investigation. A well concocted story poured into the willing ear of legislative representation, produced what was, no doubt, intended for a fitting rebuke to a soulless corporation, and proved instead a standing invitation to arson and incendiarism. The attention of the legislatures seems to have been directed solely to the fire insurance combination, though every business with

which we are acquainted and the professions find it necessary to adopt the same measures for protection.

The manufacturer, the jobber, the retailer, the salesman, credit-men and accountants, the freight and passenger agent, even the doctor and the undertaker (the last-named organizer need not be regarded as a sequent to the one which immediately precedes it because of the conjunction). To the fire underwriter the condition of uniformity is a need, and if repressive laws are enacted and enforced which would absolutely prevent it, the results would be disastrous not only to the companies, but to the insuring public as well. The business man engaged in any enterprise requiring the investment of capital knows too well that the greatest care and circumspection is necessary, for a slight deviation from the line of prudence would bring to it serious injury, if not total destruction. Like the pilot of the Lachine Rapids who, watchful of every eddy and swirl in the rushing stream, realizes that a moment's hesitation or lack of vigilance would consign his vessel to the rocks which line his course. The removal of the safeguards of organization and association from the fire insurance business would unquestionably produce like results. The margin of profit is so narrow that a "free for all" method, with no restraint on the

reckless or curb on the *overreaching*, would be suicidal. Give us proper supervision outlined by experience, and it will receive the loyal support of the companies. You, gentlemen, can do more in that direction through your knowledge of the situation and its requirements than all else combined. Educate the legislatures of your several States, if need be, to recognize in the work of the insurance companies something beyond a combination wholly selfish, in a necessary association of interests, whose influence is far reaching and beneficial, and representing a business or profession of greatest importance to the commercial world, the peer of any other and more general in its application, covering with its shield of indemnity the merchant prince and the humblest trader, the palace and the lowly cottage, and proving a boon indeed to the stricken and distressed.

ED. T. OREAR :

IN passing upon this subject and presenting my views, I shall attempt to express myself with utmost fairness and candor to all persons concerned. I shall endeavor to treat the matter in the light of practical business, judgment and expedi-

ency. The force of the splendid argument advanced in support of such organizations is properly appreciated, but in view of numerous weighty considerations now known to exist and liable to arise, I am forced to the conclusion that the question is indeed much like the student's description of the "school marm's" paddle: it has two spanking sides.

Fire insurance has grown to be a matter of public necessity, and is looked upon as such by the business world; in fact, it has been so adjudged by the judiciary of this and other countries. Considered then in that light; combinations and unions in insurance circles will necessarily receive the careful and prudent supervision of rules and practices touching matters affecting public policy.

From an "Underwriter's" standpoint, "Unions, associations, compacts, boards and clubs, in insurance matters are synonymous terms, and mean associated effort; afford uniformity in practice, and by virtue of the strength which comes to members and is denied to single individuals, enables enforcement by agreement that which a majority may regard as wholesome and safe." This, to say the least, is a very mild explanation of all that such terms imply, and to the unthoughtful person carries with it no ear marks of oppression or wrong. Yet innocent as it may appear, when closely examined, it will be found subject to serious objection

when the ultimate effect of such compacts upon the public is taken into consideration. "Combinations" and "unions" mean concerted action along some particular line of business; and with insurance companies they mean that certain forms of policies shall be alone issued; that the moral and physical hazard of certain risks shall be by all adjudged the same; that the same rules for establishing rates as applicable to the different classes of risks shall be adopted by all and strictly followed; in fact, that the minimum rate itself shall be fixed on all insurable property; and made inviolate by penalty; and various other requirements are exacted of members that have a tendency to, and do destroy the full and fair competition between the several companies to the compact. No fault is to be found with associations purely advisory in character. On the other hand, they are commended to the insurance fraternity as being entirely wholesome, legal and proper. That "there is wisdom in counsel," no one is audacious enough to deny, and that insurance as a business will be better promoted by means of conventions purely advisory in which the business in its various complications is discussed and considered with a view to the mutual welfare of all, without attempting to formulate a definite plan of operation and compel its enforcement, is a fact well known and prop-

erly appreciated by those who are engaged in the transaction of any business out of which so many prudential questions arise. In this era of enlightenment and activity such steps are called forth by the natural impulse of business men to advance with the swift fleeting progress of the age. Inventive genius is actively engaged in bringing to light the agencies and powers heretofore resting within the bosom of the unknown ; conditions are swiftly changing and new appliances taking fast hold upon the commercial and industrial world. To meet such changes, as well as to improve upon former practices, it is but natural to expect those engaged in the different avenues of business to hold meetings and conventions for their mutual benefit and for the well being of man in general. Such meetings may be properly characterized as "the study room of the inventor." They operate as a school of instructions and send out new life which permeates the entire fraternity, insures activity and improvement and brings the world to a practical realization of the fact that "man cannot live unto himself." For those who seek to advance the industrial and business interests of the State and nation in such way, all mankind must have a high regard. They should by all means possible be encouraged, for it is the work of progress, as engineered by honest men. Against

them I have no charge of condemnation to urge. History has recorded their usefulness in the past and necessity will guarantee them an unmolested right of way in the future. It is those contracts, combinations, pools and unions by which a plan of action, detrimental to public good, is formulated and obedience thereto enforced that I most seriously and earnestly condemn. It may be accepted as a rule of general application that where persons or corporations engage in the same kind of business, enter into a contract or combination for concerted action on one or more essential features of such business, it is done for selfish and pecuniary motives, to prevent one from obtaining vantage over the others, thus partially or totally destroying the spirit of competition and rivalry between them. Such contracts are injurious to the public and consequently condemned by public policy.

Insurance companies and underwriters are not to be made exceptions to this rule ; and such union of forces, whether with agents or companies, will not be able to withstand the searching "X-ray" light of the law of public policy, the object of which is to suppress everything that has a tendency to be injurious to the public or against the public good.

Insurance companies are corporations, deriving all their power by express or implied legislative authority. They are created for the good of the people in

general and are privileged to transact no business, or bind themselves by no contract other than such as is expressly granted or by necessary implication allowed. Being creatures of legislative will and engaged in a business adjudged to be of public necessity, the watchful eye of the law of public policy should at all times be in position to protect the people against such actions as will defeat the object and purpose of the corporations, or inflict wrongs and hardships upon the public in general.

All corporations are confronted with the proposition that agreements which have a tendency to regulate and govern prices, or any other essential element of business is absolutely void.

When a corporation is organized and authority given it to transact a certain kind of business, the people have the right to demand and enforce the free, full and unfettered competition of such company with every other company engaged in the same kind of business. Also, when insurance companies seek to transact business in the several States, they should come in their individual capacity, freed from combinations and alliances with others of their kind, so as to guarantee full competition among themselves in the transaction of all business falling within the scope of their authority. They have no implied right to contract with each other in the formation of compacts, unions

and boards by which they are to be jointly governed in the exercise of their corporate franchise ; nor will they be permitted to act in such way as would destroy that spirit of business rivalry and competition which necessarily follows individual and severed corporate activity.

The duties which insurance companies owe to the public and which constitute in part the consideration upon which their privileges are conferred, cannot be avoided by combinations with each other that have a tendency to destroy their functions, maim and cripple separate activity and take away their free and independent action, thereby affecting unfavorably the general interests of the public.

It has been suggested that there are many safe, sound and conservative reasons, favorable to such organizations and the public ; yet that the evident tendency of such combinations is to destroy rivalry among the parties thereto and prevent that active competition which should and would otherwise naturally exist, is a fact which we must not overlook. While it may appear that by upholding the agreement, union, board or compact as the case may be, the companies will be able to do a safer business and thereby give the insured better and safer insurance, yet, such is not and cannot be the principle by which business of this character is to be governed. The proposition may seem plausible

and reasonable, but the natural tendency, aim and effect of such combinations towards conditions highly prejudicial and unworthy are not to be lost to our view. The policy of our law is to encourage commercial and business rivalry on the ground that it promotes business health and activity. The first aim should be to protect public interest, and after that individual rights; hence, anything that has a tendency to impose upon or cripple the public welfare will not be upheld.

It has been said upon good authority that a contract which destroys rivalry in business and stifles competition in fixing rates of insurance is as prejudicial to public interest as if it were a combination of merchants and tradesmen to maintain an unalterable standard for the price of any particular article. To condemn a combination formed to prevent competition in the furnishing of material used in the construction of a house, or in the work of its erection, and yet uphold that which will prevent competition in insuring it, is to lose sight of the substance and pursue the shadow.

The law by reason of its adaptability is able to meet and does meet the varying phases of all business transactions, and wherever any contract is entered into, the ultimate tendency of which is to destroy competition and stifle trade, or break down the barriers against pools and combinations, no

sanction will be given to it by the courts of the country.

That competition is the life of trade is not the language of the street alone, but a proverb in law. If all insurance companies had the same capital, made the same investments, transacted the same amount and character of business, had the same number of officers and maintained themselves at the same expense, there might be some propriety in making the statement that there is no room for competition or for a varying standard of rates. But this is not true. The reasons that I have already presented naturally suggests to all that there is as much room and need for competition in the insurance business, as in any other avenue of trade. Granting, for the sake of argument, the proposition that the laws of safe business require a fixed standard of rates to which all companies should in strict integrity adhere, I submit the question, would it be fair and satisfactory to permit such standard to be fixed and controlled by the companies alone, while the other parties, the insured, and the general public who are equally interested, are not to be consulted? The insured is as deeply interested in the matter as the company or the underwriter. Good business policy tells him to pay no more for his insurance than is necessary to guarantee perfect security against loss and

at the same time enable the company to transact a safe, conservative and fairly profitable business. He is also greatly concerned that no one will undertake to uphold a policy that enables the companies to fix the rate to be paid by him without consulting and advising with him as to what the proper rate should be. Along this line I desire to particularly admonish companies and underwriters. I do not believe that insurance companies in general are anxious to see an iron standard of rates fixed and followed by all ; but if unions, combinations, compacts and clubs are continuously created and insisted upon as being necessary for the welfare of both company and the insured, the evident tendency and effect of which would be to beat down opposition and destroy all competition, it will not be long before the people in the exercise of a sovereign power, will by legislative enactment in the several states, ordain that such shall be done in a very different manner than that contemplated by the companies. Authority will be conferred upon some department of the State government by which the standard of rates shall be fixed in a manner both impartial and adequate, without the consent of the companies thereto. As a matter of example it may be said that the business of a "public carrier" stands on the same footing as that of the insurance company. They are both con-

sidered matters of public necessity, over which the State on grounds of self-protection and public policy, should have legislative supervision. The people of the several States in their wisdom have considered it advisable for their own good to regulate and control the maximum freight and passenger charges and compel obedience thereto by all the railroad companies, under severe penalties. Is it not probable that the same reasons which prompted the one, will prompt the other? I do not apprehend a disposition upon the part of the people to assert any such authority. In fact, good judgment advises against it, so long as the companies do not interfere by undertaking to establish such fixed rates as deprive the people of the fruits of wholesome and vigorous competition. There is no cause for alarm ; the people have never yet asserted themselves in such way unless there was an imperative demand and necessity for it. They stand pledged to the principle that all such matters will properly regulate themselves when kept free from combinations and improper influences. But should they be forced to quiet the arm of such corporations and prevent the formation of a conspiracy, which would operate harshly upon the business interests of the country, by the establishment of an arbitrary standard of rates for the companies, it would be accomplished without regard to the

special interests of any class and with a proper and impartial consideration of the welfare of all.

It therefore becomes essential for all companies to require their agents and underwriters to depend upon their own exertions in the open field of business rather than to undertake to secure their respective shares of the business by means of clubs, unions and combinations, which are repulsive alike to the people and the spirit of our institutions. By this policy there will be no ill feeling created in the minds of the people against the companies and no necessity for State interference and supervision of rates.

THE INCONSISTENCIES OF FIRE INSURANCE LEGISLATION.

W. H. MYLREA :

THE topic is one full of suggestion. The legislative enactments of this country for the past fifty years would furnish illustrations for a volume. The statute books of the different States contain many acts which in future years may be classed with the famous "Blue Laws" of Connecticut. The excuses for their enactment are many. The ignorance and wilful prejudice of the average legislator will account for many, and no small number is due to the unconscionable conduct of men engaged in some kinds of so-called insurance. The language is strong but this assembly ought to be representative and meet these questions frankly.

The commissioner of insurance of a State who pays any attention to the duties of his office must become more or less familiar with the statutes of his State. He knows full well that many of the laws which he is called upon to execute are unwise

and far from bringing the best results to the people of his State. He is not the maker of these laws and should not be blamed for their crudity or inefficiency. The fire insurance interest is one specially vital to the modern business man as well as to every property owner in the land.

With the time at his disposal, the writer can not be expected to be always correct in his citations. Some of the statutes criticised may have been amended or repealed. If so, due apology is offered, accompanied with the commendation for a body that recognizes its error and seeks its remedy. Statutory law is always in process of change and follows in the footsteps of the experience of the people.

It has been suggested somewhere that chairs of insurance should be endowed in our large universities. We have schools which teach more or less of bookkeeping and banking. Every college graduate must devote some time to the study of political economy. In that course he is taught the general principles underlying the laws of finance. He is generally given also a course in international law, which is proper. In regard to insurance, which reaches into every department of business life, he is given not a word. He is taught more about his rights within the domain of a foreign nation than of the rights and benefits to be had from a proper

knowledge of the principles of insurance. He never expects to be called upon to maintain his rights in Asia, but he is so uninformed as to the true principles of insurance, that he will quickly take a policy in any scheme which will promise him something for nothing at his fellow's expense. It is certainly one of the subjects which should be taught somewhere in the institutions of learning in this country. It is certainly unfortunate that the young men of this country should be sent forth into the world to obtain all their knowledge of insurance in the school of experience, a school which receives the highest priced tuition for the learning imparted. The people owe it to themselves to so understand the question of insurance as not to be burdened with unnecessary premiums or induced to enter into contracts which can have no other result than to enrich the officer and place holder of a corporation until the affairs of that association are turned over to a receiver. Every burden placed upon the company is paid by the policy-holder whether in stock or mutual company.

Some months since, quite a prominent citizen of Wisconsin visited the writer, and, among other things, complained of the enormous rates charged for fire insurance. He admitted that he was an advocate of anti-co-insurance clauses, valued policy laws, anti-compact agreements, etc. The

proposition was made that he engage in the business himself. It was ascertained from our statutes that all that was necessary was a cash capital of one hundred thousand dollars to be invested in interest bearing securities, the income of which was to be paid into a common fund with the premiums received upon policies of insurance. When the question of rates was reached, he admitted that these must be sufficient to pay losses and expenses and a profit on the business, on account of the risk. These must be collected over and above any sum received on the capital, because the capital was only a guarantee to its policy-holders that the managers of the company would make the venture pay its own way. He understood then as never before, that every tax and burden put upon the insurance company was put upon the business and paid by the policy-holder; that to exact exorbitant taxes for the State from the premiums was as wise as the Irishman who, when asked to ride in a carriage, insisted on holding his pack in his lap in order to lighten the burdens of the team.

Complaints are made in Wisconsin continually as to rates. We have here valued policy laws and others of that character. One of the ablest governors of the State urged upon the Legislature the repeal of the valued policy laws, and pointed out how the people of Wisconsin were paying a large

amount of premiums on account thereof, but the legislature in their wisdom, declined. There is no reason of public or private policy which can be given to justify any policy-holder receiving a sum greater by way of indemnity than the actual loss sustained. The common argument in favor of the valued policy law is that the company ought not to have issued a policy for a greater sum than the value of the property. The answers to this argument are two: First, an agent capable of valuing every piece of property in a community is a man of such judgment and experience as will be too valuable to be engaged in the business of soliciting risks; and, second, that it is more economical for the public to appraise the value of an occasional loss rather than to appraise once in each year all the insured property in the community. In either case the expense is borne by the policy-holder and while in the former case this expense would be but nominal, in the latter it would be burdensome.

Who can give us the amount that must be added to the premiums of Wisconsin each year to pay the amount of the increased losses on account of this statute? No one denies such losses. The amount is large but indefinite. These amounts are largely speculative from year to year, and the companies must charge enough in anticipation to pay them. The company fortunate enough to

escape paying these losses receives a larger profit at the expense of the premium payer.

In Iowa, the amount of the policy upon real estate is *prima facie* evidence of the value of the building destroyed. If a total loss is settled or appraised for less than the amount written, the insurer must return a *pro rata* share of the premium. Why is not this a valued policy law equally fair to both parties of the contract? The moral hazard is wanting, and the company only receives such a premium as is actually earned.

About the year 1894 the legislature of Massachusetts provided for the office of fire marshal. The system had been in use in the city of Boston for some time, and in that year was extended to the State. His annual reports show that the unknown causes of fires vary from ten to nearly forty per cent. In his report for 1896 he says:

“One of the most serious evils in connection with the protection of the individual property holder against loss by fire is that of the torch of the incendiary.”

The commissioner of insurance in that State in the same year says in his report that:

“The marshal is unquestionably correct in his expression of opinion that to a very considerable degree incendiarism grows out of over-insurance.”

He also speaks of the report made to his depart-

ment by a town clerk as to the cause of a certain fire, who said it was undoubtedly due to the "friction caused by a very small stock of goods rubbing up against a very large insurance policy." This is equal to the famous case in Wisconsin, where the loss of a grist mill in the winter time was accounted for by the friction of the water wheel against the ice in the stream.

In the fire marshal's report for 1897, in speaking of convictions for setting incendiary fires, he says that :

"One had set eight fires, two had set forty fires with a loss of one and one-half million dollars, and one had set twelve fires with a loss of one hundred thousand dollars. Another had collected insurance fifteen times upon the same goods."

These losses were paid from the premiums of policy-holders. The conditions in Massachusetts are undoubtedly the conditions of other States. Only the dishonest man will over-insure his property or claim a loss greater than he suffers. To legislate in favor of this class by valued policy laws would almost justify the statement that members of the legislature enact statutes in their own behalf.

The legislatures of the several States are continually passing laws punishing individuals for violating the laws of morality. One of the greatest

elements of insurance is the moral hazard. Good public policy demands that the legislature should in every possible way protect public morals. The legislature should ever have in mind the rule that no man under any circumstances must be permitted to profit by his own wrong.

The object of all legislation should be simply regulative. This includes, of course, the raising of revenue for the support of the government. The legislative regulation ought not to be narrow or ill-advised. It should be broad and liberal. On every hand is heard the criticism of corporations and the unjust use of their powers. Some of these criticisms are just and many are the result of ignorance of sufficient facts on which to base an intelligent judgment. One is sometimes almost made to believe that the abolishment of corporations would correct all the evils of modern society. The growth of corporations in the management of private affairs has been gradual and has come to stay. The abuses of corporate rights by unscrupulous men can only be met by wise regulation. One of the greatest problems of modern times is the proper regulation of corporations, with due regard to public and private interests. Each corporation is the creature of the State and the sovereign power of that State is ever ready when invoked to control the corporation and keep it within its proper powers. It

should be the aim of every member of the legislature to vote only for such measures as will truly enable the corporation to accomplish its purpose, and not to use legislation in regard to corporations for the sole purpose of revenue and to unduly burden one of the modern agencies of business.

The laws of New Mexico require an insurance company organized outside of that State to deposit ten thousand dollars cash (without interest of course), in the State or some county treasury, or in lieu thereof, bonds of the United States or of that State, or some county thereof, and invest its surplus in the same, or "other indebtedness of any solvent, dividend-paying institution, incorporated under the laws of the Territory or of the United States." This certainly is not a law of regulation, nor was it passed for the purpose of protecting the patron of any fire insurance company. There could be but one object of such legislation, and that was, to market by force securities and "indebtedness of any solvent, dividend-paying institution, incorporated under the laws of the Territory," which ought to be viewed with suspicion by every conservative investor. Under this law the surplus of a company authorized to do business in New Mexico could be invested in the mining stocks of some wild cat company of that State and be solvent. If, however,

this surplus be invested in the first mortgage gold bonds of railways like the New York Central, the insurance company is declared by the law of that State to be insolvent and unable to pay its indebtedness. Comment is unnecessary. The result of such legislation must be that companies which would make such reckless investments would be equally reckless in their risks and payment of losses. Their policies must sooner or later prove to the holder a rope of sand, or an executory invitation to file his claim with some receiver, and accept whatever is left after attorneys have found no further cause of profit in litigation. Such restrictive legislation is on a par with that of Spain three hundred years ago, when her statesmen enacted a death penalty for exporting gold and silver from the realm, upon the theory that its sole retention within the kingdom would make the nation the ruler of the financial world.

The Territory also requires that a synopsis of the annual statement be published in a paper in each county where the company is engaged in the business of underwriting. That statute was not passed in the interest of the policy-holders, but to increase the revenue of local newspapers. Even when admitted to do business in the Territory, the company is limited to do business in such counties only in which it has appointed

local agents. To be consistent, they should amend this statute and provide that the company should appoint every man an agent to write his own insurance policy.

A majority of the members of the legislatures of the several States must, in the nature of things, be men of limited experience. It follows that any legislation of theirs must be the measure of their own experience. A good illustration of this was brought to the writer's attention during the past summer. In a number of the States are statutes known as "anti-co-insurance clauses." The object of this legislation is to prohibit insurance companies from requiring a co-insurance clause; or, in other words, limit in any way the amount of their policy, either as to amount or the property upon which it is written. A corporation of this country which bought and exported large quantities of flour and other food products in several of the States, which products were being continually moved from one place to another, applied to its broker in New York City for insurance to the amount of half a million upon its property. The owners were unable to locate the property or specify its exact value, because the same was continually changing location and fluctuating in value. There was no difficulty in obtaining the insurance with the co-

insurance clause, for the reason that with that agreement attached it amounted to making all the policies issued equivalent to individual policies upon specific amounts. If the companies could not have attached the co-insurance clause, it would have required a great deal of time to secure the several policies and attend to all the changes that must be made in the policies with every change in location or in the value and amount of property insured. In that case the co-insurance clause was undoubtedly attached to property in States prohibiting the same. State boundaries cannot stay the progress of legitimate business. The thought I desire to impress is this, that the co-insurance clause is the result of the demands of modern business, and not an instrument upon the part of insurance companies to obtain premiums without returning an equivalent therefor. In the case in question, had the property been located in fifteen different places, a single policy without the co-insurance clause must have been in effect fifteen separate policies upon fifteen different pieces of property, and the equitable premium to be charged must have been the gross amount of fifteen premiums upon fifteen separate risks. With a co-insurance clause, the premium could be upon one risk, and yet the policies of all the companies would cover all the property insured.

The fairest co-insurance law to be found was passed by the legislature of Wisconsin in 1897. It requires the insurance companies upon demand of the insured to make rates with or without such a clause attached to the policy. It is then optional with the insured to choose whether or not he wishes the lower rate with the co-insurance clause attached.

In 1897, the legislature of Wisconsin passed an anti-compact law, but provided that the board of underwriters in any city or village, and in case there was not such board, that the local agents, might establish a table of uniform rates. It was hoped that this would accomplish all the purposes of the usual anti-compact law, and at the same time make a board that would give fair rates not only to the company but to the assured. Like many another legislative enactment which appears good in theory, practice and experience demonstrated a condition of affairs unlooked for. Soon after this law was enacted, its defects were apparent. As is well known in the business world, it is the custom of large concerns to give their insurance to one agency, in order to avoid the necessity of looking after renewals, etc. Firms so placing their insurance permit the local agency to divide it among the several companies represented by the local agent, and give the surplus lines to other local

agencies. As soon as the local boards were organized, agents who had no share in this business, and willing to resort to any method for increased business, approached property owners and informed them that unless they were given a share of this insurance, as members of the local board they would vote to raise the rates, in order to punish the owner for not dividing the insurance. This would give the agent who was just commencing in business the same advantage as the man who had spent a lifetime in building up a clientage, and at the same time compel all large insurers to deal with all the local agencies in a city, instead of with one.

In 1895, the legislature of Alabama passed a law providing that in case of any defense to a life policy upon the ground of false representations, or any defense showing that the contract was void in its inception, that before the company could file such an answer in court it must deposit all the premiums received. In case judgment was for the defendant the money deposited in court should be repaid to the defendant, less the fees of the court to be deducted therefrom. This act is entitled: "An Act to regulate defenses to actions on policies of life insurance." It may be extended either in Alabama or other States to fire insurance companies, as there is no reason why the same rule should not be applied. The writer would like to have the

author of such a measure explain to the public why the same rule should not apply to similar contracts between private citizens. The sum and substance of this statute is to guarantee to the man who fraudulently procures a policy of life insurance that he may have the benefit of his fraud if he is not detected ; and if he be detected he shall have the right to recover a part of his money in order to enable him to make another attempt to obtain the fruits of his own misconduct.

In 1897, the legislature of the same State passed a law to more effectively protect "the people" against combinations, etc. In that statute I find the following provision that :

"No stipulation or agreement in such contract or policy of insurance to arbitrate loss or damage, nor to give notice or make proofs of loss or damage, shall in any such case be binding on the assured or beneficiary, but right of action accrues immediately upon the loss or damage."

The experience of over one hundred and fifty years of fire insurance has taught the business men of England and this country that it is cheaper and more effective to ascertain the amount of a loss by means of arbitrators and appraisers, rather than by the clumsy machinery of a court and jury. The courts have universally upheld and approved a stipulation in a policy which provides for the ascer-

tainment of the amount of the loss, leaving the liability of the company to be adjudicated by the courts.

The object of requiring notice of loss is to enable a representative of the other party to the contract of insurance to come upon the scene and for himself to verify the amount of the loss, at the time when such action can best be taken to preserve the rights and interests of both parties. The proofs of loss were required to be made by the assured for the sole reason that the owner of the property was the only party in possession of all the facts as to the particular items of property destroyed; and it was found that justice was better served by requiring him to make a formal statement thereof than to leave the insurer to ascertain these facts without the aid of the assured. Were all men honest and upright and not prejudiced by self-interest, there might be some excuse for abolishing from the contract the provision for notice and proofs of loss. Perhaps the state of Alabama is inhabited by a class of people different from other states in the Union, but the writer has no information thereof. Judging from the character of their legislation upon questions of insurance, they would seem rather to belong to that class who think that by some legislative act they can procure something for nothing.

Another phase of legislation that should be corrected relates to the re-insurance reserve of fire insurance companies. It is the usual practice of all fire insurance companies to return as a re-insurance reserve, one-half of the premiums collected, upon the theory that they have collected a sufficient rate to pay losses and expenses. Also that one-half of the insurance contracted is in the main earned, and that one-half of each policy is yet to run. The true legislation in regard to re-insurance reserves ought to be that they should be required to have on hand an amount sufficient to re-insure all their risks in some good solvent insurance company. Such is the rule in some of the States, and especially in the State of Wisconsin. It sometimes occurs that a combination is entered into to crush a weak competitor by the insurance companies having large capital and an extended field of business. This they do in the locality of some smaller company by writing business at an unprofitable figure for the express purpose of bankrupting their competitor and obtaining the field for themselves. An illustration of this occurred during the rate war in the city of New York during the present summer. A policy of one hundred thousand dollars was written for five years upon one risk for a premium of eight hundred

dollars, upon which the company paid a commission of three hundred and twenty dollars. A single fire in a room containing costly curtains and carpets, which might be ignited from a number of trifling causes, would cost the company more than the premium received. No company could write all its business at such figures and pay the losses from its premium account. The result is that it must on some other locality charge more than a lawful rate, and thereby cast the burdens of one community upon another. If the statute be the same as the one in Wisconsin, the commissioner of insurance could call for a list of the policies of the company, procure the same to be rated or valued, and fix the re-insurance reserve by the standard cost of re-insurance, rather than one-half of the premiums. If a company engaged in this unlawful business to any large extent, it might find itself not only minus a surplus, but with an impaired capital, and be obliged to withdraw from business until the impairment was made good.

Attention is called to another statute of New Mexico. An act was passed prohibiting any increase over the rates established on the first day of January, 1897. Imagine the wisdom of the members of the legislature of the State of New Mexico when they can say by their public acts,

“a fair rate had been established all over the State of New Mexico,” and that no matter what may be the change of conditions in after years, the rate established is correct. Suppose experience were to demonstrate the utter inadequacy of these rates. That State is probably the home of the famous statesman who demanded the immediate repeal of the law of supply and demand, because it interfered with his political prejudice and arguments.

It remained for North Carolina to do better. Its legislature prohibited any company from charging higher rates on farm property than was at that time charged upon farm property in Virginia. We talk of the ignorance of by-gone days and yet it is still with us.

The State of New York has some queer modifications of the retaliatory statutes adopted in many States. In addition to the usual requirements of similar taxes, etc., of companies of such States, the superintendent of insurance of that State is required to forthwith cancel and refuse to license *all* insurance companies organized under foreign governments where such foreign government refuses to admit New York life companies, duly furnished with a certificate from the superintendent of insurance of that State, setting forth their solvency and good management. The ori-

gin of this statute was the action of some European countries in refusing American life companies the right to do business in their domain, because the New York companies did not comply with the laws of the European countries. In order to fight the battles of the life companies of New York, the fire companies were made to suffer. If all foreign companies were driven out of this country, would it not tend to raise the rate of insurance?

The State of Washington, prior to 1897, provided that in the event of the total destruction of any insured building, where the amount of the loss was found to be less than the amount in the policy, the company was obliged to return the unearned premium for the excess of insurance over the appraised or agreed loss. Under this statute, the insured received the total amount of his loss and also a return of unearned premium. In 1897, the legislature of that State took a step backwards and followed in the steps of other valued policy States, providing that where the building was wholly destroyed the amount of the insurance written was conclusive of the true value.

In 1897, the Legislature of Wisconsin passed the following statute :

“The directors of a mutual corporation shall be personally liable for all premiums due and levied

on policies written upon risks in any other State or foreign country in which the corporation has not been duly and legally admitted and licensed, and wherein such policies have been written in violation of the laws of any such other State or foreign country."

The object of this statute, of course, was to provide that all policy-holders in any mutual company organized in Wisconsin might be compelled to pay their just proportion of losses; and if, on account of the company's doing business unauthorized in a neighboring State the company should be unable to collect the assessments, the officers should be liable personally. The statute is right, except that in another part is found the proviso that: "This act shall not apply to church mutual insurance companies or societies." The effect of this proviso is, that officers of church mutual societies may violate the laws of other States with impunity. We wait for a learned disquisition from some theologian as to whether or not any moral guilt is involved in such a practice!

In the State of Florida there is a statute providing for certain parties to obtain license and pay fees therefor, in order to engage in certain classes of business in that State. Peddlers, lightning-rod dealers and insurance agents are classed together.

Was this classification made from the fact that most insurance companies issue policies with a lightning clause attached?

The legislature of the State of Michigan evidently were at one time in a humorous mood and perpetrated a joke. The statute of that State provides, that where an insurance company has been placed in the hands of a receiver, that "if, after paying the losses and liabilities of such company, and the services and expenses (of the receivers) aforesaid, there shall remain any funds in the hands of the receivers, the same shall be paid back," etc. The provision is all right in theory, but who ever heard of anything being paid back after the receiver and the policy-holders were through with the assets of a defunct insurance company?

Another instance of legislative wisdom in the same State is found in the statute organizing *mutual* fire insurance companies. The statute prohibits waiver of any of the conditions of the policy, except in writing, and provides that all the conditions, etc., of the policy are of the substance of the contract, and to be strictly construed in its favor. Search among the statutes controlling stock companies fails to find any such provision. In the one case the local policy-holder is the sufferer, in the other case it is supposed to be the in-

nocent stockholder who resides in another jurisdiction.

By a statute of 1897, the legislature of Alabama prohibited tariff combinations and all tariff associations, etc., from fixing rates. If the company "belonged to, or was a member of, or in any way, (legal or otherwise) connected with any tariff association or such like thing, by whatever name called, either in or out of this State," etc., then the assured in case of loss can recover twenty-five per cent. additional. Under this statute it is doubtful whether the officers of two companies could even meet to compare their experience in different branches of underwriting, without running a risk of being compelled to convince a jury that there was no tariff association to which the defendant belonged. From testimony just stated, there is little doubt as to what the verdict of a jury would be, where an insurance company is a defendant.

The statutes of Alabama contain another very queer provision. In the statute in regard to examinations of companies, there is an innocent proviso that, "in the case of the foreign life insurance companies for the purpose of this act, the insurance commissioner shall accept as true and correct the sworn published statement," etc. Nothing is said of fire insurance companies, from which

it is a fair inference that the officers of fire insurance companies are not to be believed even under oath. The law excepts all fire insurance companies, insuring cotton manufacturers exclusively, from the operation of the insurance statutes. Some one must have had a "pull" with the legislature of Alabama.

Nebraska provides, that in case a party is successful in obtaining judgment against a fire insurance company, the court shall, in its discretion, allow the plaintiff to recover a reasonable attorney fee. This provision is applicable only to fire insurance companies. We commend to the people of Nebraska Section 9 of the Bill of Rights contained in the Constitution of the State of Wisconsin, which reads as follows :

"Every person is entitled to a certain remedy in the laws for all injuries or wrongs which he may receive in his person, property or character; he ought to obtain justice freely, and without being obliged to purchase it, completely and without denial, promptly and without delay, conformably to the laws."

The treatment accorded by Nebraska to fire insurance corporations is justifiable solely upon the old doctrine that the negro had no rights which the white man was bound to respect.

The State of Kansas, like its sister State Ne-

braska, allows the plaintiff to recover of a fire insurance company a reasonable attorney fee. As all expenses and disbursements of an insurance company are collected from the policy-holders by means of increased premiums, it is easy to see who pays the freight.

Oklahoma has a valued policy law that is unique, and we are not certain but its adoption in other States would be a good compromise. The statute provides that the company shall "pay, in case of total loss, the full amount of the policy." A neighboring section provides that "no policy shall be issued for more than twenty-five per cent. of the value of the property." If this latter section is a modification of the valued policy law, it is a good one. If, on the other hand, it be construed as simply directory to fire insurance companies, then it is a complete admission that a valued policy law is wrong in principle.

The legislature of Minnesota is evidently opposed to exploiters of mutual fire insurance companies. Its legislation is certainly intended to discourage that industry. It requires every policy issued by a mutual fire insurance company to state upon its face the limit of liability of the assured under the policy.

The State of Maryland requires every insurance company to publish its annual statement three

times in each county in which it does business in at least *one* newspaper, except mutual companies organized under the laws of that State. The irony of the section is in leaving it optional with the insurance companies whether they will publish in more than one newspaper in each county. The laudable object of this legislation was to compel the stock insurance companies doing business in Maryland to contribute to the support of a "free press" in that State for the enlightenment of the people. They need it. It is to be noted that if mutual companies organized under the laws of Maryland were to pay these fees, it must be charged back to the policy-holders in that State; but in stock companies it was probably supposed that the shareholders must pay this additional burden.

In spite of the almost universal practice throughout this country, the State of Vermont prohibits a provision for appraisement of the amount of the loss as a condition precedent in its policies. Minnesota, Wisconsin, and many other States, as well as the provinces of Canada, recognize the validity and usefulness of this provision, by enacting that in case the two appraisers mutually chosen fail to agree upon an umpire, an appeal may be made to the presiding judge of some adjacent court to select the umpire.

A number of the States have provided that where parties act as agents for an unauthorized company, they shall be liable for any loss occurring, which their principal company refuses or neglects to pay. In other States there is a fine or penalty. The former legislation is the better, because it gives relief to the party injured; while in the latter case it leaves the individual remediless, and the State profits from the violation of its own laws.

Ohio, Wisconsin and many of the States make it a criminal offense to defraud life or accident insurance companies in any way. Silence in regard to like frauds upon fire insurance companies speaks louder than words the well-known fact that a great many men deem it at least legitimate to pad proofs of loss and secure illegal profit from insurance companies.

The legislature of Mississippi, by enacting that no company or its officers shall make a charge of extra premium or increased rates, on account of the valued policy law, would probably protest when presented at the ordinary hotel with a bill of extras for canvas-back duck and champagne. Another statute of that State, in the mind of the writer, is utterly indefensible. It requires every agent to file in the required public office a list of all policies, names, descriptions of property, rates, terms of expiration, etc. The only practical benefit to be

gained from this is to give rival agents complete knowledge of business not their own.

The State of Georgia requires all foreign companies organized outside of that State to deposit with the State treasurer twenty-five thousand dollars in U. S. bonds, or in such Georgia bonds as the legislature of that State shall declare valid. Why should any State have bonds that require a legislative enactment to declare their validity? If they are bonds of the State, they are valid; if they are not bonds of the State, they are pieces of waste paper. Georgia is one of the States that has the valued policy law applicable to both real and personal property. There may possibly be some excuse or justification, under some circumstances, for a valued policy upon real property; but a policy upon personal property, like a stock of goods in a store, which is fluctuating, is certainly not open to argument. It is only what is to be expected from a legislature that will enact a statute substantially as follows:

“Any citizen of this State may cite any company, duly authorized to do business, to show cause before the commissioner of insurance why its license is not revoked, if any rate be increased, or if the company refuse to insure property at a reasonable rate.”

This provision gives the insurance commissioner,

oftentimes a mere political appointee with no experience in underwriting whatever, the duties of an expert underwriter, where his every interest is against the company. With all due deference to the legislature of the State of Georgia, we do not think that a single resident of that State has the qualifications to fix a fair and equitable rate upon all the property of that State, if he had no other duty to perform. If there is such an one, any company will be glad to employ him at once and double his salary. A statute in Indiana, if not repealed, requires that, in case of notice of any loss being received by an agent who issued the policy, he shall retain all money on hand at the time and afterwards received, until the loss is paid. In case of suit, he may deposit twice the amount in court, and thereby release the balance. The plaintiff can also notify other agents, and compel them to retain funds in their possession. The result of this statute is to compel payment and avoid strict investigation as to the character and amount of the loss. The company cannot obtain interest upon its funds so sequestered, and must, at the same time take the chances of an agent's defalcation. The statutes of the same State prohibit co-insurance clauses, except for railroad and marine risks. By this latter act the legislature of Indiana admitted the justice and

wisdom of a co-insurance clause, but limited its benefits to large corporations.

The State of Delaware requires an annual tax of one hundred dollars per annum, but excepts the Delaware State Grange Fire Insurance Company. Provisions similar to this are scattered through the statute books of other States. It is simply a perpetual reminder that the men who compose these legislative bodies are exceedingly human, and prone always to help their friends at the expense of equal justice to all.

The legislature of that State has tried to modify the valued policy law by providing, "it shall be in force" unless the fire be caused by the criminal fault of the insured. In other words, when the criminal proclaims in advance that he intends to burn his property and gives the company notice so they may obtain proof, then the valued policy law shall not be in force.

The writer would commend to the student of legislation upon fire insurance the statutes of the Dominion, and several provinces of Canada. No State in the Union can exhibit a statute book showing the learning and comprehension of business, the broadness with which companies are treated, and at the same time the strict accountability to which they are held to the faithful performance of every obligation they may make. The

greatest freedom of contract is given to the companies, in order to enable them to meet all the exigencies of modern business life with its changing conditions. Yet at the same time they compel the companies to so preserve their capital and surplus as to be ready at all times faithfully to fulfill their obligations. Upon the much talked of question of valued policy laws there certainly is no better rebuke than the following provision taken from the enactments of the province of Ontario, to wit:

“The sum insured does not constitute any proof of the value of the object of insurance; such value must be established in the manner required by the conditions of the policy and the general rules of proof unless *specially* valued.”

This enactment reads like one of the rules of the old English common law, which is supposed to be the embodiment of common sense gathered from the experience of many men in many ages.

Believing that most of the legislation mentioned is due to want of proper knowledge of the subject, let us hope that the next generation may be wiser than this. Legislation to limit and control contracts as well as religion has always proven a failure. When men understand that the rules of law are but the rules of true and enlightened business, we may look for wise legislation.

HOW TO EXAMINE A FIRE INSURANCE COMPANY.

J. J. BRINKERHOFF:

A FIRE insurance company is a corporation, existing by authority of a State or government conferred through a specially enacted charter, or acquired by compliance with the requirements and conditions prescribed by general statute. It is, therefore, subject to the law of its creation.

The purpose for which it was created and for which it exists, is to furnish to the people contracts of indemnity against loss, for valuable consideration. It is, therefore, under obligation to the State, its creator, and to the people, its patrons, to maintain itself in a condition of ability to carry out its contracts.

It is composed of its stockholders or members who are officially responsible for its acts, and whose interests are vitally affected by its condition

and the management of its affairs, by their chosen agents.

An examiner, appointed by the proper State authority and to that extent representing the visitorial power of the State, should have constantly in mind, in performing his work, the obligations and duties growing out of these relationships, and consider the affairs and transactions of the company from the standpoint of each.

The proposition that the affairs and transactions of a company should be considered by an examiner in their relation to stockholders, either as giving them undue benefit, or as working to their injury, will doubtless be disputed by some. It will not be here insisted upon as a separate proposition or as a necessary line of independent inquiry. It will be conceded that stockholders are generally able to take care of themselves, and that in most cases if any undue advantage has been given them it will be viewed as an injury to policy-holders. It is pertinent, however, to observe that stockholders of companies constitute a large and respectable portion of the citizens of a State, and entitled to its protection; that they have made large investments in the stocks of companies which the State has undertaken to supervise and examine; that many of them have no more accurate knowledge of the condition and affairs of their own company, than the

public has which obtains its information from published reports and examinations ; that as the State has assumed to regulate and supervise these institutions it is considered that its endorsement is a guarantee of security and that what it has not condemned is proper. It should be considered also that an injury to the stockholders does not always add to the benefit or security of the policy-holders. The limits of the rights of stockholders as well as any injury to which their interests may be subjected are not improper subjects for consideration in an examination.

The charter of a company and the laws of the State in which it is incorporated impose upon it limitations, and contain regulating provisions, which it is essential for an examiner to be familiar with before he is qualified to make an intelligent examination of its condition and affairs on behalf of a State. The restless and energetic spirit of the age has so diversified old business activities and called into existence such a variety of new ones, each requiring the protection which is afforded by Insurance Companies, that new kinds and forms of indemnity are constantly called for. Managers of companies with equal enterprise and energy are prompt to meet the demand. The authority to do this is sometimes based upon a construction arrived at from a favorable standpoint. A situation of this

character is not so frequently met with in the case of fire insurance companies as in insurance companies of other character. Nevertheless there are instances known to history where an examiner of a fire insurance company had need to take notice of and submit for consideration matter of this character. Furthermore, it is necessary for him to see that the business has been carried on and its affairs managed in harmony with enacted provisions and restrictions. His inquiry should be directed to those matters which are commonly regulated by the laws of most of the States, as the payment of dividends to stockholders, the manner of acquiring and the tenure of real estate, the amount of insurance carried on a single risk, and such other matters of similar character as may appertain to the particular case. In some cases it may be remarked that his efforts would be put forth in a laudable and fruitful undertaking, and one subserving the public interest if he should endeavor to ascertain whether the company has been violating the laws of any State by carrying on therein the business known as underground insurance, a business for which it was not incorporated. As a failure to conform to the provisions of law, a violation of its positive requirements, or acts which are *ultra vires*, may bring consequences of serious injury upon a company, it is the duty of the examiner to

project his lines of inquiry in these directions, and an intelligent undertaking of this character requires a knowledge of the requirements of the law and the terms of the charter of the company.

It is a uniform principle in the statutes of the several States, to condition the exercise of the franchise of an insurance company within their respective limits upon the solvency of the company, and consequently the chief object of an examination is to determine the financial solvency of the company's affairs, according to the tests established by law. Necessarily the items primarily subject to inquiry for this purpose group themselves into two classifications, namely—assets and liabilities. What does the company possess or claim, and what is its value—what does it owe or may be liable for? and the inquiry concerning each class is twofold—simple, but comprehensive. As to assets the question is as to ownership or title, and value—as to liabilities, the question is as to accuracy and completeness. Let us not permit the simplicity of these propositions to obscure their importance or value. They *are* characterized by simplicity, but it is the simplicity and plainness which belong to fundamental principles. They are the essential inquiries to be constantly borne in mind and answered in every examination and upon the completeness with which they are answered depend the

character and value of the examination. Too many examinations have proved valueless because one or another of these questions was lost sight of. There is no need of argument to prove that it is not sufficient to show that a company is in possession of certain assets or securities unless it is conclusively proven to be in rightful possession of them through *bona fide* ownership, and the actual value of them is ascertained, nor is it sufficient to ascertain that the company is chargeable with certain items of admitted liabilities, without proving that such items of liabilities are correctly computed and that there are no other liabilities with which it is chargeable. It may, therefore, be stated as a fundamental proposition that in every properly conducted examination the examiner must determine the ownership and value of the assets of the company and must ascertain and compute accurately its complete liabilities.

It is however, easier to state this proposition than it is to apply it in respect to a number of the items entering into the statement of condition of a company.

In the examination of a company which has been but recently organized, not only should the securities or assets representing the investment of its original capital be subjected to special and strict scrutiny in these regards, but the manner in which

its subscribed capital stock has been paid should be a point of special inquiry. The laws of most of the States, if not all, require that the capital stock subscribed shall be paid for in cash or in money, and the funds thus derived, invested in certain enumerated kinds of securities. The payment of the money to the company for the stock issued, and the investment of the money received by it for such stock, are made by the statutes two separate and independent transactions. In the first the company sells its stock and dictates the price; in the second, it lends the money and dictates the security, or invests it and chooses the kind of investment. In both of these transactions it is in a position to dictate the terms. This is the method of organization prescribed by the laws of most of the States. Sometimes, however, by a convenient construction the incorporators are permitted to combine the two transactions in one, and put up securities in consideration of stock issued, upon the theory that, although the law requires the organization to be effected in a prescribed way, nevertheless, some other way, which is considered just as good, will answer just as well. Whatever plausible argument may be advanced in support of this theory, a stronger argument against it is to be found in the history of companies exploited in this manner. Instances of the early demise of com-

panies from such defects of organization are known to all and need not be mentioned. An examiner should view with strong suspicion any organization of a company effected in this manner, and if the established fact that the stock was thus traded is not deemed sufficient to determine its exclusion from business in his State, he should conclusively determine by thorough investigation—First, whether there was not collusion or corrupt mutual agreement between the stockholders to foist on the company their securities at fictitious values—Secondly, whether there was not a lack of faith in the success of the enterprise and a string retained by the stockholders to their securities—Thirdly, whether the stockholders were not lacking in financial ability and put up their obligation upon an agreement that dividends should cancel interest. This deviation from the method prescribed by law, warrants one or another of these suspicions, and is sufficient to destroy confidence in the company.

An examination of a company may be made for the purpose of verifying or proving the correctness of its annual statement of condition rendered the department, or it may be made to ascertain its condition at a subsequent date, in either case the examiner should have at hand for inspection and reference, correct copies of the official annual statements of the officers for several preceding years.

Unless the condition of the company is such as to preclude its further continuance in business, the result of the examination will necessarily be compared with the showing in the company's own statements of condition at previous dates. Such comparison will furnish the examiner in many cases valuable information and the statements themselves will be suggestive to him in many important particulars.

It is a good plan to begin an examination by actual count of cash in office at the entrance of the examiner, verifying the same with the balance called for by the books of the company at that time and adjusting it through proper checking of receipts and disbursements to prove the balance at the date at which the condition is to be ascertained.

Cash in office, as reported in annual statements is not always or in all companies what it seems to be. Occasionally it includes some items which are in no sense cash, and others which are in fact disbursements not charged up. In some companies it is frequently difficult to ascertain at a subsequent date the true character of this item. Important information or suggestions as to the nature and value of this item of assets at a previous date may often be obtained by ascertaining its character at an unexpected date.

A convenient and natural advance in the work from this point is made by checking and verifying a trial balance of its ledger accounts, thus proving its books to be in balance. Furthermore, the examiner, by giving a little studious attention to this preliminary work, by tracing to original sources such items as are suggestive of special inquiry, and by investigating the structure and composition of such accounts as are of uncertain character, will qualify himself for more intelligently formulating his plan of examination, and acquire at the outset a valuable general understanding of the company's system of accounts and in many cases be able to detect any peculiarities in them which will require his special attention. With this general information in his possession he should undertake to further familiarize himself with the company's system and office methods in each department of its work—as the bookkeeping department, the agency department, the policy and risk department, the claims department, and any other department embraced in the division of its business, in respect to each obtaining as complete and accurate knowledge as possible of the details of its methods and the relation and correspondence of each with the other, under its own peculiar system. Notwithstanding the fact that the business of companies, and the general results to be preserved are

similar in character, the details leading up to such results may be and frequently are very dissimilar as between different companies, and the examiner should have in mind at all times the details and special features in the system of the company under examination.

It is not practicable in this paper, nor is it deemed necessary to follow out and enumerate what might be termed the mechanical details of this part of the work of the examiner. Anyone competent to make an examination keeping in mind the general principles and purposes before referred to, and having familiarized himself with the system and plans of the company will be able to work out the details of the examination of the books and accounts without difficulty.

What has already been said implies the necessity of a careful count and inspection of such items of ledger assets as loans on mortgages, loans on collaterals, stocks and bonds owned, and the title deeds of real estate owned—the valuation of these assets, and the verification of the actual purchase or proper acquisition of the same. Nothing additional need be said concerning them, except that the receipt of interest, dividends and rent, should be traced to determine their character as income-producing assets and fix the basis for computing due and accrued interest and rent. The amount

claimed as cash in bank should be verified by certificate of the cashier of the bank and the balance shown on the company's pass book after correcting the same for checks issued and unpaid. It is important to determine whether this balance includes borrowed money or fictitious credit. It is possible to measurably conceal such items on the company's books. As an instance, one company discovered agents' accounts to be a convenient place for such concealment, and credited borrowed money to balance old worthless agents' debits. This answered the purpose for making an annual statement but did not stand the test of an examination. By observing the uniformity of the deposits and their correspondence with the receipts of the company in its business, the examiner will generally be able to determine their source.

The credit to be given to the company for premiums not yet received by it on policies in force, whether standing on the books as agents' balances or appearing as premiums due and unpaid is an important item for the consideration of the examiner. The amount and character of this item should be carefully considered. The amount should be considered in respect to the proportion it bears to the total assets of the company, to the volume of business transacted by the company, and to the amount reported in previous statements, and

its character should be determined by the experience of the company in collecting the amount shown in previous annual statements and the length of time during which the balances have been carried or the premiums have remained unpaid. The correctness of the amount of balances due appearing on the general ledger or agents' ledger should be determined by proper comparison and checking of the agents' monthly statements and the daily reports, at least to a sufficient extent to establish the accuracy and integrity of the accounts. It should be borne in mind that, owing to unevenness of distribution of business written throughout the year, the amount of uncollected premiums may be much larger at certain periods than the general average for the year is. This fact should be noted in any comparison with amounts reported at previous dates. Whether the item is disproportionately large can be determined by comparison with other similar companies, with the averages in departmental reports, and by inquiring into the particular causes in the company under examination. Of course, the examiner must determine whether these accounts are gross or net; that is, whether or not commissions and expenses have been credited agents on all business charged them. If such credits have not been given them, a charge in liabilities therefor will be required. Agents' debit

balances and agents' credit balances should be treated as separate items in a statement of condition—the first as an asset to the extent its character justifies, and the second as an actual liability—even though they are both merged into one account on the general ledger. It is not practicable to pay what is due one agent with what is owing from another agent without first collecting the latter account—consequently the value of one as an asset is to be determined, and the other to be treated as a liability. As regards the character of this kind of asset—the convention's blank for annual statement excludes from assets uncollected premiums more than three months due, and excludes bills receivable for premiums when past due. This, of course, is a proper rule to govern in an examination. While this rule of the exclusion of premiums more than three months due according to the language of the blank, relates only to premiums in course of collection as distinct from balances due from agents, nevertheless the examiner should ascertain whether agents' balances are those of live and active accounts and properly secured by bonds, or whether they are old and worthless accounts, and admit or exclude them accordingly. It must be remembered by the examiner that the exclusion of these items from assets necessitates the elimination from liabilities of such

amounts as were charged on account of the same in unearned premiums, commissions or other expenses.

Turning now to the liabilities of the company, it is found that the two principal items requiring the attention of the examiner are—unpaid losses and unearned premiums.

Concerning unpaid losses it is essential for him to determine the correctness of the estimate of liability for unadjusted losses from the facts in the possession of the company. Whether or not it is the practice of the company to underestimate its unpaid losses, and to what extent the company's own estimate can be relied on, can be determined by ascertaining the amount actually paid in settlement of previously reported unpaid losses. If he finds that losses have been actually settled at less than previous estimates, his work in this direction may be considerably abridged. Adjusted losses present no serious difficulty in respect to the amount of liability to be charged. Neither do losses in suit, inasmuch as the laws of the various states require that the liabilities shall include the amount of claims for losses resisted by the company. Instances will occasionally be found however, where an improper motive for bringing suit is so apparent as to justify the examiner in taking notice of it and according special treatment to the case.

It is frequently difficult for the examiner to satisfy himself that he has discovered all the unpaid losses of the company, but it is not proposed to here undertake to furnish him a safeguard against deception where a company undertakes to conceal its unpaid loss liability. He must rely upon his own ingenuity, research, experience and knowledge of methods, and practices for his protection, in such case. He should note whether entry is made on the loss record at the time notice, however informal, is received. If this method is strictly adhered to, such record, after checking losses paid, will furnish the desired information. If entry is only made when losses are adjusted, or when paid, his inquiry should extend to the files and correspondence of the company, the disbursements for expenses of suits, and the cancelments for loss. The happening of the contingency insured against raises a presumption of liability, and such cases as the company has notice of only, where no proofs or adjustments have yet been made, should be taken account of by the examiner, and a proper amount therefor charged under liabilities.

The unearned premium liability is a factor of prime importance in the statement of condition of a fire insurance company, and its correct computation is a matter of especial concern to an examiner.

It is not within the province of this paper to discuss the theory upon which this fund is required, nor the functions which belong to it, whether it be a fund to provide for the payment of expected losses under policies in force, a reserve to protect policy-holders by re-insurance in case the company should decide to retire from business, or a fund equivalent to the amount the company would be required to return to its policy-holders, should it decide to relieve itself of all liability under its policies by cancellation. The laws of Illinois, and most of the States, require the premiums unearned on unexpired risks to be held in reserve and charged as a liability. This requirement, as a measure of liability, is in accord with the terms of the contracts of insurance, which obligate the company to return to policy-holders the *pro rata* unearned premium in case it elects to cancel the policies. If inconsistencies result, by reason of differences in premiums, and unequal reserves are charged on risks of similar character, equal hazard and like amounts, written in different States or localities, it is an inconsistency for which the examiner is not responsible, and with which he need not especially concern himself. Nor need it worry him if the reserve thus computed should be found to be in excess of the probable future losses on outstanding risks, or the net amount required

to re-insure them. But it is not so clearly a matter of unconcern should it be obviously insufficient to meet such losses or provide such re-insurance. It is true that current receipts as well as funds in hand are available for the payment of future losses, but it should not be necessary to draw on future receipts to pay losses occurring under policies included in the reserve account of a previous date. While the laws require that premiums charged shall be held in reserve for account of unexpired risks, *pro rata* for the unexpired time of the risks, without limitation as to the adequacy of the premiums charged, it is but reasonable to conclude that the law assumes a normal and healthy business condition under which adequate rates will be received. It is not to be supposed that the law assumes that business will be conducted on unsound business principles. To assume this would be equivalent to imputing to the law-makers a degree of sanction to such methods. If, therefore, unusual and unforeseen conditions exist, if periods of disastrous rate cutting or ruinous competition prevail, such inadequate premiums may be received, that the unearned premium reserve computed thereon in accordance with the provisions of the statute may produce a fund insufficient to protect the policy-holders and fail of accomplishing the purpose of the law. The ex-

aminer, when fully satisfied that such a condition of affairs exists, would not be justified in ignoring it, and following the letter of the law without comment or warning.

In computing the unearned premium liability the examiner should note four important requisites to a correct result :

First.—That the premiums with which he is dealing are the correct premiums charged without deduction for commissions, brokerage, rebates or policy fees.

Second.—That they include the premiums on the entire business of the company in force, and that no agency, sub-agency or office premiums have been overlooked or withheld.

Third.—That the classification as to year written and term is correct.

Fourth.—That the correct fraction is used to produce the unearned premium corresponding to the unexpired time of the insurance. In order to satisfactorily establish these facts, it is necessary for the examiner to go back to original data. Secondary books of records, such as expiration books, unearned premium records, or agency registers, should not be accepted without thorough and ample verification from original data as agents' monthly statements and daily reports.

Deductions for cancellations must be made from

the business of the year in which the cancelled business was written, and at a corresponding rate of unearned premium. Instances have been found where companies have deducted the cancellations made during the year from the current year's business, thus reducing premiums on which ninety per cent. was unearned by premiums on which thirty per cent. or even ten per cent. was unearned.

A like principle must be observed in deductions for re-insurances effected in other companies, the solvency of the re-insuring company being ascertained before deductions are made. Re-insurances carried by the company under examination must be classified for the computation of unearned premiums according to the date and term of the original policy and included at the amount of the original premium.

It is of course, well known that unearned premiums are not ordinarily calculated separately on each individual policy. The business is grouped according to years of issue and terms of policies, and the unearned premiums computed upon each group on the basis of an assumed average expiration of time.

To conform to this assumption and to produce a correct amount of unearned premium liability by the use of the unearned premium fractions incorporated in the department annual statement blanks

it is necessary that the business shall have been written uniformly throughout complete calendar years, or complete periods of twelve months dating from the time of examination. If it is found that such is not the case in the company, under examination, the examiner, in order to arrive at the correct amount of unearned premium liability, must classify the policies by shorter periods than twelve months.

It will frequently be found that a company is chargeable with liabilities of a miscellaneous character, not shown on its books as unpaid bills and accounts—accrued salaries and rent—taxes and other items of a similar character. These should be inquired into by the examiner and the amount ascertained.

The matter of capital stock should not escape his attention. He should make examination as to the issues of shares and verify the amount outstanding with the amount authorized by its charter and reported in its official statements.

A comparison of the experience of the company during the period under examination and the chief items in its business and condition with those of former years and those of other representative companies of known reliability will disclose the peculiar characteristics of the company being examined and enable him to discover the direction in which its affairs are tending.

In conclusion it is proper to add that this paper does not undertake to treat of all the items in detail involved in the examination of a fire insurance company, nor all the special features appertaining to the several kinds of companies.

It devolves upon the examiner in the prosecution of his work to determine whether the receipts of the company have been derived from such proper and legitimate business sources as to entail no resultant liability on it—whether for borrowed money, borrowed credit, advances or otherwise; and to prove the correctness and integrity of the amount of premiums upon which the unearned liability is computed by agreeing the same with the amount of premiums entered upon the books of the company as having been received by it; to inquire into the legitimate and *bona fide* character of the expenditures of the company—whether the rates of commissions paid are consistent with business prudence or underwriting experience—the existence and character of any special contracts relating to the payment of commissions or the general management of the company, as affecting its future prosperity—the question of favoritism shown to officers or stockholders in the matter of loans, to the possible injury of policy-holders by impairing the security or endangering the financial stability of the company—the general character of

the risks in force and the relation experienced and existing between losses and expenses incurred and premiums earned—and the official acts and conduct of the management as shown in the minutes of the proceedings of its board of managers.

In the preparation of this paper the writer has benefited by the examination of a recently published article on the subject of the examination of a fire insurance company prepared by one of the prominent underwriters of the country.

CHAPTER III.

CASUALTY INSURANCE, CORPORATE SURETYSHIP, ETC.

ACCIDENT INSURANCE.

EDSON S. LOTT :

HAMLET remarks of his players: "Seneca cannot be too heavy nor Plautus too light for them." It appears they were not hard to please, but the play is *not* always the thing. The audience may have something to say. Blessed is the man who has an audience that will listen kindly whether he is heavy or light. For one who is immersed in the cares of business to be invited to contribute an article on accident insurance, is apt to cause him to lose sight of the compliment in the difficulty of the undertaking. If I am asked for a paper which by its weight will act as a sinker, and counteract any undue buoyancy of the volume in which it is to appear, the task is not so formidable. On the other hand, to extract a light and airy grace from the severe material of personal accident insurance, the adorning touch of genius would be required. Indeed, if I felt competent to do any carving and gild-

ing of literary frescoes, I would select some other subject. I will fulfill all that can be expected of me if in a desultory, conversational way I put down a few thoughts and recall one or two instances suggested by a reversionary glance over an experience of some years in the casualty business. If they are not recommended by their novelty, I hope that some of them will meet the approval of those more versed in the principles of accident insurance.

The elements of a science are often the last to be mastered. I remember once being present when a candidate for the bar was examined for admission in open court. The first examining attorney opened the ceremony by what appeared to be a very simple and idle question :

“What is a thing?”

It was a poser, and had the effect of completely clouding the intellect of the postulant for unholy orders. I was given to understand that the question had some mysterious relation to Blackstone's division of “things” into “real, personal and mixed.” The young gentleman came under the third class.

Suppose I ask my learned colleagues :

“What is an accident?”

A clear and complete answer would vastly simplify the work of claim examiners. It is in vain that they appeal to the dictionary. When

some proud youth imagines he has hit upon a reliable formula, the endless cup-chain of events dips down into the bottomless well of life and brings to the surface a new and unthought-of combination of circumstances which mashes the formula into little bits. However, all casualty companies agree that an accident is "an injury effected through external, violent and accidental means." An *accident* is effected through *accidental* means. Is that so? An accident is—an accident. This is very clear and satisfying. I will not attempt to do what no one else has ever accomplished—give a perfect and satisfactory definition of an accident. But in a round-about fashion, I may suggest one way of defining this difficult and elusive object, which defies all intellectual efforts to grasp it. Accident insurance assumes to indemnify for injuries where chance, not design, is the author. Accident insurance steps in where the law steps out. It assumes liability where the assured otherwise would be remediless. The law says: "The act of God hurts no one." This is one of those pretty legal fictions. The act of God hurts and hurts badly, but does not hurt by the machinery of the law, though it does create havoc through the forces of nature. A cyclone, a tornado, or a stroke of lightning is an act of God which has been known

to be extremely hurtful. It is against such accidents as these that casualty insurance provides money indemnity, where the victim would be helpless and without remedy at law. By the way, I hope my allusions to the law will not expose me to the suspicion of being a lawyer, one of those gentlemen whose delight is to make insurance companies spend restless nights.

Realizing the difficulty in defining what is an accident, insurance policies attempt more successfully to state what is not an accident within the meaning of the policy contract. Disappearances, suicide, injuries resulting from fits, vertigo or intoxicants, voluntary exposure to unnecessary danger, dueling, fighting, war or riot, violating law, adventures into uncivilized lands, and riding on conveyances not intended for the transportation of passengers—these casualties are ordinarily excluded from the purview of an accident insurance policy. But even in exclusions companies are not agreed. The tendency of American companies is to shut out fewer and fewer causes of bodily injury. They even pay for injuries which are in no wise accidental, such as those which are inflicted by burglars and highwaymen.

I have shown how hard it is to describe in language what is an accident. This is the more strange since we are taking lessons every day from

our claim departments and the courts. There would not appear to the uninstructed mind anything accidental about a mosquito bite. The perverted and industrious ingenuity with which this enemy of man seeks its prey, leaves nothing to chance, yet we have had claims on account of mosquito bites, and some courts are disposed to view the ruin wrought by this miscreant as accidental. All will remember a famous case decided last year in which a casualty company was held to be liable for the consequences of wearing a tight shoe. If this opinion be universally adopted, in insuring ladies hereafter it will be well to require a statement in the application of the number of their gaiter and the last.

Accident insurance manuals attempt to name the hazard which surrounds each particular occupation. Undoubtedly, in the chances and changes of this mortal life, different men are exposed to different degrees of danger. The steeple-climber who gilds the cross and ball at the summit of the consecrated spire, is more apt to meet with serious injury than the holy father who spends his time in his study, culling beautiful and inspiring sentiments from the sacred writers and eloquent ecclesiasts of past ages. Nevertheless, no man is justified in believing himself to be secure from the fatal or non-fatal consequences of some unlucky misadventure.

Even within the safe precincts of the domestic hearth, a serious mishap may disable the industrious house-wife or the lord of the establishment, who is resting from his labors. I know of no more striking illustration of the universal exposure to accidental injuries than a case that happened in Washington City a few months ago. The victim of misplaced confidence described the injury in a letter, from which I make the following extract:

“On the morning in question, on entering the kitchen, my wife, who had been using a flat-iron, told me to let her remove a crease in my pants, saying at the time that the iron was not hot. I placed my limb in position on a chair, she placed a damp cloth over the place or crease and put the iron over this. The iron being hotter than either of us supposed, drove the steam, thus generated, through the pants to the flesh, thus steaming a place the full length and nearly the width of the face of the iron, about two inches by six inches, on my leg from the knee-cap upwards. During the day it caused a great deal of discomfort and irritation, at night it was blistered the whole length of the burn in small blisters. I had occasion during the night to arise, and while groping about the room struck my leg against the trunk, bursting the blisters and tearing away the

skin on fully one-third of the burn immediately above the knee-cap. It pained more or less all night, and up to the present time sometimes is very painful, especially in going up steps or raising my leg, it being the right leg. It is very stiff and gives a great deal of inconvenience."

Accident insurance is no longer an infant in swaddling clothes. By reason of the large amount of capital employed and the vast sums contributed yearly in the shape of indemnity to the assured, it has taken its rightful and serious position among important enterprises, and is more and more attracting the favor and acceptance of the insurable public. It is a serious business, and should be always handled seriously. As this article, however, is not intended to be altogether serious, it might not be out of place to alleviate its solemn character by relating the unfortunate consequences that ensued several months ago from the failure on the part of a gentleman in the home office to keep in mind the importance and dignity of casualty insurance.

The New York papers published in their telegraphic column a report of a great barbecue in the chief city in Colorado. According to the report, in the mad haste of the hungry thousands to destroy their share of the enticing barbecued meat, a number of guests were choked to death. Now it

happens that our company issues policies which cover choking by swallowing. In a jocular moment our Colorado agent was served with the following notice : " Please take up all policies which provide indemnity for choking to death by swallowing." Somebody violated confidence, and a leading newspaper of Denver, with the omniscience of the press, got wind of this private communication. Choking with rage, the editor gave a column and a scare head to the alleged serious action of the company, in the course of which he said :

" When reports of the Denver Barbecue reached the New York office, an emergency meeting of the directors was at once called and the dangers of the situation fully set forth in all their awful details. It was determined that the company should take immediate action to prevent the destruction of their assets through the greed of policy-holders who attended the Denver Barbecue, stood on the prostrate forms of weaker men, and shouted for wolf meat and preferred it raw. Accordingly the general agent of the company in Colorado was notified to take up all policies which provide indemnity for choking to death by swallowing. The agent replied : ' Thank God we have something out here to choke on. Since the wave of prosperity struck the New England States I find there

are many cotton workers choking to death for want of something to eat.' ”

Personal or individual accident insurance has perhaps undergone fewer changes than most other lines of insurance. Personal accident insurance has been written in this country for something over a quarter of a century. It was originally intended to cover the risk of travel, but soon was broadened to cover all accidents whether fatal or non-fatal. When railroads were not so universally patronized as at present, there existed a feeling of distrust against their safety, now common to those people, who have never been abroad, against the ocean. While accident insurance was originally intended to cover the hazard of travel, there really is no extra hazard now attending traveling by the ordinary means of public conveyance, yet to this day there exists a greater or lesser feeling that one is liable to meet with an accident while traveling by rail.

In fact, railroad accidents, owing to inventions and improvements, contribute a very small percentage of the claims made upon casualty companies. A legal authority on the law of accident insurance in a work published in 1894 says: “It is frequently said that the claims for injuries or death growing out of the use of horses and carriages exceed in number those arising from all

other causes combined." This statement is, no doubt, gross exaggeration. The bicycle has grown into general use, and it rivals the horse as a fruitful cause of accidental injuries. Out of three thousand eight hundred and nineteen claims paid under accident insurance policies, five hundred and seven were for bicycle accidents, four resulting in death. Out of \$408,448.75 paid under accident policies, \$44,285.49 were for bicycle accidents, of which \$18,000 was paid for death and \$25,285.49 for indemnity.

But I will not pretend to furnish, in the brief space allotted me, any tables of insurance. Accident insurance is not an exact science, but this is no reason why we should not strive, with lapse of time and enlarged experience, to approximate greater and greater accuracy. A full and free exchange of views and experience will lift the business to a higher and higher plane. It is important that companies should make and preserve careful tables showing their losses under policies which provide specific indemnities, partial disability, and sick benefits. These departures from original lines are of undetermined value to the assured and of doubtful profit to the insurer.

A wide difference of opinion prevails among companies as to the age beyond which insurance ceases to be profitable. The age-limit ranges be-

tween sixty and seventy years. With reliable means of computing losses at this time of life, we can do away with the injustice of cancelling a man's policy when he reaches the age-limit. It would seem to be fairer to continue his insurance at an increased premium rate.

Those companies who attach riders to their policies permitting the assured to use irregular methods of transportation, such as locomotive or freight cars, to go upon railroad beds, to engage occasionally in prohibited occupations, would add materially to our stock of knowledge by counting the cost of this supplementary form of insurance and exchanging with other companies their experience.

Imperfect induction is a hazard to which every accident insurance company is exposed, and it is responsible for many errors in our manuals. I am trying to show that a fuller and franker intercourse between companies will necessarily improve the business of accident insurance. It is not necessary now to argue in behalf of the utility of this branch of insurance. On the other hand, no argument is necessary to demonstrate that the policies now issued are capable of improvement. But when we attempt to make changes in the direction of more comprehensive and acceptable policies we should have the guidance of ample and reliable data. If we only had at hand the benefit of

adequate experience, there is no reason why a policy should not be framed which is unconditional, nor is there any reason why a schedule of rates cannot be arranged so as to comprise the most hazardous occupations, those occupations which are really most in need of insurance protection.

Accident insurance, in the determination of a schedule of rates and a classification of risks, meets with much of the difficulty fire insurance contends with—the lack of co-operation of companies and reluctance to exchange experience and data from which to build a classification table of hazards.

I am of the opinion that such a compilation of experience will not be possible for years to come if left to the voluntary action of the companies, and it may be well for the Convention of Insurance Commissioners to consider whether the interests of the public and of personal accident insurance cannot best be served by eliminating from the present statement blank some of the unnecessary requirements and in their place requiring a classification of losses. In a few years such classification would create a table of experience from which could be derived an approximate schedule of rates and a scientific reserve determined for this line of insurance. Not that it would be well to go too deeply into this matter of a classification of losses in the

reports to the insurance departments. Indeed, that would be a useless hardship on the companies. But the losses for death indemnity, specific indemnity, total disability indemnity, partial disability indemnity and sick benefits could be readily subdivided, and would be of equal value to the insurance departments and the companies.

One more observation and I will conclude. The field of accident insurance is as wide as the civilized world, but it is only cultivated in patches. Let us, therefore, never forget that there is room for all the companies now in existence and space for more to come. Antagonisms and undue cheapening premium rates are suicidal.

I am acquainted with a city of considerable size in which the merchants seem to be all in a tacit league to uphold one another's credit, particularly where the interests of an outsider are alone concerned. That is a strikingly prosperous city. As a rule, casualty companies are in no need of factitious support for their credit. Those that cut any considerable figure in the commercial world can rely upon their resources and their reputation for prompt adjustment of losses to sustain their financial standing. Nevertheless, there is no company so well established as to be entirely beyond the reach of injury from continual assaults of competitors. "Live and let live" should be the pre-

vailing rule of conduct. For every accident insurance company that is properly equipped and well conducted the world is amply able and willing to furnish a handsome subsistence.

EMPLOYERS' LIABILITY INSURANCE.

W. F. MOORE:

IT is perhaps pertinent to a discussion of this subject to trace the cause for the establishment of this form of insurance. The necessity for such insurance has for its foundation the burdens imposed upon employers by the workings of that branch of the law relating to negligence, so called. Negligence law, however, existed in some form as far back as there is any definite record, no one having yet been able to clearly determine just when and where it commenced. Employers' Liability Insurance, on the other hand, is a comparatively new institution, its introduction in the United States dating back to less than twelve years ago, although it had been in operation in Europe for a short period prior to that time.

It may be well, therefore, to trace in outline what is very aptly termed the "evolution of negligence law" down to the time when Em-

ployers' Liability Insurance was adopted as a means of protection against its application.

In early times there were no such fine distinctions as respects negligence as exist to-day. Suits for damages were rare and the plaintiff was usually obliged to prove the damage to have been the result of wilful act.

But while Employers' Liability Insurance is distinctly a modern need, due to the great growth of negligence actions in the past twenty years, the law of negligence has been at least three centuries in building. Its beginning is lost in the obscurity of feudalism, in which the master, as the owner, virtually, of the body of his servant, answered upon the field of arms to those outside his household who were injured by the wrong of his servants or henchmen. Under the feudal regime there was, of course, no recognition of any right of the servant against the master for the latter's negligence. A feudal master in his own household, like a king, could do no wrong.

The statute of Westminster II (1295 A. D.), allowing the Chancellor to grant a new form of action for injury to person or property, marks perhaps the first recorded recognition of a legal remedy for negligence. In the reign of the Plantagenet kings the year-books record no cases of this character. In Comyn's Reports (1695-

1740) is found the first collection of negligence cases.

Blackstone, whose now classic "Commentaries" afford us the earliest authoritative exposition of English law in its formative stages, refers only briefly to the master's liability to third persons for his servant's negligence and does not even mention the idea of a master being liable to his employe for his own negligence.

Blackstone says: "If a servant by his negligence does any damage to a stranger, the master shall answer for his neglect; if a smith's servant lames a horse while he is shoeing him, an action lies against the master and not against the servant, but in these cases the damage must be done while he is actually employed in the master's service, otherwise the servant shall answer for his own misbehavior. Upon this principle, by the common law, if a servant kept his master's fire negligently so that his neighbor's house was burned down thereby, an action lay against the master."

How great the contrast between the servant's position in that day and in this is emphasized by the further statement of the same author, that if a fire occurs in the master's house through the negligence of any servant, such servant shall forfeit one hundred pounds to be distributed among

the sufferers, and in default of payment shall be committed to some workhouse and there kept to hard labor for eighteen months.

Somewhat later we find the earliest recorded attempt by an English Judge to formulate the law of negligence. After an exhaustive analysis of the Roman law, Lord Holt in the celebrated case of *Coggs vs. Barnard* (2 Lord Raymond, 909), in the year 1704 defined three degrees of negligence, viz.: gross, ordinary and slight, varying in proportion to the degree of care assumed by the person charged with negligence in the act or occupation involved.

The growth of that spirit of individual responsibility which characterizes and animates all Anglo-Saxon jurisprudence soon led the English Judges to lay down one broad rule of duty which has since been the basis of the law of negligence, and which, after many modifications, is crystallized in a modern definition as follows: "Negligence, constituting a cause of civil action, is such an omission, by a responsible person, to use that degree of care, diligence and skill which it was his legal duty to use for the protection of another person from injury as, in a natural and continuous sequence, causes unintended damage to the latter."

The early cases recognized the liability of the master only to the public or to third persons. The

great mass of law from which has been evolved the employer's liability to his own servants for his negligence or for the negligence of one representing him in the pursuance of the employer's duty is the product of the present century. The master's duty, so elaborately presented in the Employers' Liability Acts of four of our States and in many State constitutions, with its intricate modifications, is the product of the present generation.

It is a striking fact that more suits for negligence have been tried in the Supreme Court of New York in the last ten years than in all the previous experience in that tribunal.

Following old world history, therefore, we may look upon the evolution of the law of the master's or employer's liability as an ever growing tendency of the times, due, doubtless, in large measure, to the changes in the social and industrial condition of the working classes as well as their greater demands and their increased political importance.

The changes in law thus far, however, have been gradual. New rules and tests have been from time to time adopted until the conditions reached a point where the responsibilities of the employer became so burdensome that he was obliged to look about him for some means of protection in addition to the exercise of ordinary care and foresight in the actual conduct of his

work. The employer with a limited amount of capital was in constant danger of disaster to his business by reason of exorbitant verdicts obtained because of some technical negligence for which he might not be actually and morally responsible, but for which the law might construe the liability against him.

This contingency seemed to be a proper subject for insurance and, without going into the details of the specific Parliamentary acts which finally caused the organization of companies for the issuing of policies of insurance providing indemnity for loss by reason of the legal liability of the employer, it has perhaps been pointed out with more or less clearness that, while there was no recognized necessity for such insurance in early times, the evolution of the law of negligence brought about a demand which was finally met by Employers' Liability Insurance.

But let us not lose sight of the fact that while this demand was met when the want was most felt, the introduction of insurance as a protection has by no means stopped the march of progress in negligence law.

The premium rates originally charged are found now in many cases to be totally inadequate, not in every case because of faulty judgment in the beginning, but because the cost to the insurance

company has been vastly increased by a continued disposition on the part of Courts and Legislatures to draw the lines closer and place greater burdens on the employer, which burdens, by reason of insurance, fall upon the companies.

As an indication of the trend of public opinion in the direction of "reform" in the relationship between employer and employed, the following quotation is made from a volume entitled "Workingmen's Insurance" recently published by Mr. William Franklin Willoughby, of the United States Department of Labor:

"Step by step we have seen almost all of the European nations abandon the position that employes have no claim for damages except when they can prove negligence on the part of their employers, in favor of the one where their compensation by the employers should be compulsory in all cases except where they are wilfully and seriously at fault. The indemnification of injured workingmen has thus been made one of the normal items in the cost of operation, to be taken account of as any other charge. At the same time, the efforts to enforce this system through the law Courts has been abandoned, and the position taken that adequate and prompt compensation can only be secured where the amount of the compensation is determined in

“ advance by a fixed scale of indemnities. It is
“ only as thus organized, moreover, that employ-
“ ers are able to take account of the risks that they
“ run and provide against them by means of insur-
“ ance.

“ While this movement has been going on in
“ Europe, the United States has stood practically
“ still. Scarcely a beginning has been made
“ toward modifying the unjust provisions of the
“ old common law. It is quite beyond our field
“ to attempt any description of the state of the
“ law regarding employers' liability in the United
“ States at the present time. The subject is one
“ of great complexity, and here we are concerned
“ with the principle rather than the details of
“ legislation. It is sufficient to say that the
“ United States are in the position where the in-
“ justice of the common law in respect to this
“ question is more or less recognized, and at-
“ tempts are being made to bring about a reform
“ through legislation and judicial decisions. The
“ States are thus still in that primitive stage
“ where a solution is sought in the timid modifica-
“ tion of the doctrine of common employment, of
“ what constitutes negligence, and other subtili-
“ ties of the law. They are thus attempting a
“ method of reform long since abandoned by
“ European nations as one which not only does

“not do justice to the workingman, but is thoroughly inadequate to solve the difficulties of the question. It would be difficult to think of another field of social or legal reform in which the United States is so far behind other nations.

“The most depressing feature of the situation lies in the fact that the very principles involved in this gradual evolution—from the limited liability of employers to that of the compulsory indemnification by them of practically all injured employes—are as yet not even comprehended in the United States. Evidently it is useless to expect any decided legislation until the people generally are made to see the justice and correctness of the position for which we are contending and which has so recently been assumed by Great Britain. The first step, therefore, consists in the education of public opinion. This once accomplished, legislation will inevitably follow.”

Mr. Willoughby writes from the standpoint of the philanthropist, having in mind only the protection of the workingman and his family against want and suffering occasioned by loss of work or support; but there is a close relationship between the movement for bettering the condition of the workmen at the expense of the employer and the insurance of the employer against

unmeritorious claims, especially when the movement comprehends a practical removal of all the defenses of the employer and by so much increases the hazard assumed by the insurance company.

It is not likely that any such radical change will be made at once in this country, but we cannot fail to observe the rapid strides made by European countries in the direction of an improvement in the condition of the working classes and to note that wherever such movements are taking place the difficulties of Employers' Liability Insurance increase and its operations become more complicated.

Employers' Liability Insurance in the United States is, however, now an accomplished fact and a recognized necessity among employers of labor, and, whatever may be its final development, we are able at least to take a retrospective view and profit by past experience so far as it may be of value as a guide for the future.

The year 1887 was the first year in which Liability Insurance was written in this country to any extent. While some few policies had been issued prior to that time, it was not until 1887 that the business was taken up and prosecuted in any appreciable degree. In that year the premiums received on Employers' Liability Insurance policies in this country amounted to about

\$150,000. From that time on for the ensuing ten years the increase in business was very marked. The following schedule shows the amounts written in each year during that period.

1887,	\$ 150,000
1888,	300,000
1889,	650,000
1890,	1,120,000
1891,	2,100,000
1892,	3,000,000
1893,	3,500,000
1894,	3,700,000
1895,	4,000,000
1896,	4,250,000
1897,	4,700,000

For the first few years these amounts are necessarily estimated, because the reports of the various companies to the insurance departments did not clearly state the amount of insurance written in each line, and as most of the companies did a multiform business it is difficult to ascertain the exact amount written; it may be assumed, however, that the figures given are approximately correct. It will be seen from this schedule that the increase from 1889 to 1892 was greater than at any other period; and this may be properly accounted for by reason of the fact that during these

years several companies undertook the insuring of common carriers at large premiums without having any proper basis of rate. This line has been practically abandoned by all of the companies, and, considering that nearly all of such business was dropped after 1893, the increase in business from 1893 to 1897 really means more than would appear from the face of the foregoing table. In other words, the loss of all the common carriers business had to be made up by other business, and notwithstanding this fact there was an actual increase, so that in the year 1897 the amount of premium collected by all stock companies was nearly \$5,000,000. The amounts given as collected in the years 1895, 1896 and 1897 are actual figures as taken from the insurance reports, but the schedule does not include business written by mutual or Lloyds companies, which would somewhat increase the total.

The natural deduction is, that the scope of Liability Insurance is almost unlimited. It is not confined by any means to the manufacturing industries nor alone to employers of labor. It has been extended from time to time to cover liability for personal injuries however occasioned, so that, what was originally known as "Employers' Liability Insurance" might be more correctly called "Liability Insurance."

Every year some new requirement for such insurance appears, and it is fair to assume that we have not by any means reached the limit of the scope of this class of insurance.

While Employers' Liability Insurance is permitted to be transacted in every State in the Union, there is not in every case an exact definition of this feature of insurance. Where a definition is given at all, it runs as a rule closely to the definition used in the Laws of the State of New York, which is as follows :

“ Insuring any one against loss or damage resulting from accident to or injury suffered by an employe or other person and for which the insured is liable.”

It will be seen from this definition that it was the intention to provide for insurance, not only of employers as against claims made by employes, but of “any one” as against claims made by employes or any other persons, so that under the feature of Employers' Liability Insurance nearly all of the States provide for insurance against liability for personal injuries in its broadest sense. In some of the States there has been an effort to divide Liability Insurance into its component parts and treat each part as a separate branch of insurance, but up to this time the whole field covered by Liability Insurance is accepted in all of the States as under one head.

The hazards other than Employers' Liability commonly underwritten by companies engaged in this line are, the liability of a manufacturer or other employer of labor for injuries sustained by persons other than employes, caused by the operations of the business upon which the insurance is granted—this is called Public Liability Insurance ; the liability of the owner of horses and vehicles for injuries sustained by pedestrians or others in the public ways—this is called Teams Insurance ; the liability of the owner or tenant of a building where elevators are used for passenger or freight service, for injuries sustained by any person or persons—this is called Elevator Insurance ; the liability of the owner or lessee of any building (except such as may be used by the assured for manufacturing purposes) for injuries sustained by any person or persons by reason of defects in the building or in the ways adjacent thereto or by reason of defective elevators or negligent operation thereof—this partakes of the nature of Employers' Liability, Public Liability and Elevator Insurance combined and is called General Liability Insurance.

The insuring of the liability of railroads and other common carriers has been essayed by some companies, but those who have undertaken any considerable volume have met with disaster, while those who have touched it experimentally only, have withdrawn.

It seems to have been demonstrated that the large railroad corporations are necessarily so equipped with legal and adjusting departments for the many other purposes required by such institutions, that the adjustment and defense of damage claims and suits for injuries can be handled at less expense by such departments than the amount of the "loading" an insurance company would be obliged to add to the average loss. The railroad company knows its average of loss per annum and is not likely under the circumstances to pay an annual premium very much in excess of such sum.

The result has been, therefore, that the Railroad Liability Insurance written in the past has been rated inadequately and resulted in loss to the underwriters. In most cases the comparatively large premium, even at a low rate, was the attraction, but there is nothing in the liability business so deceptive as the risks carrying large premiums. Until railroads and other common carriers are willing to pay a rate equivalent to the net cost, plus the usual "loading" on average business, such insurance will be disastrous, and, as it is reasonable to believe no thoroughly equipped railroad company would agree to pay the required premium on this basis, it is fair perhaps to assume that the insuring of the liability of railroads will not for the future be a factor in the business.

The hazards heretofore named are not the only risks taken by the companies under this head. There are other directions in which liability insurance is tending. Proprietors of theatres and other places of amusement may now obtain policies of insurance protecting them against claims for injuries to their patrons or employes. Owners or tenants of private dwellings may protect themselves against the dangers of icy sidewalks, open coal chutes, loose shutters, etc. Owners of ships and other vessels, tugs, barges and scows used for freighting purposes, may also take advantage of liability insurance. And so also in connection with the insurance of steam boilers against explosions, a feature of liability insurance is introduced. Steam boiler insurance has been carried on for many years in this country and for a longer period in Europe, but it is only of late years that the policies have been so extended as to cover the liability of the owner or operator of the boiler for damages by reason of personal injuries in consequence of boiler explosions.

As the theory becomes better understood the possibilities broaden. New lines are suggested by actual claims that arise and which are not contemplated by any policies now in vogue, and it may be predicted with safety that the principle of liability insurance is here to stay in one shape or another,

but, as this paper endeavors to show, surrounded by such difficulties and complications always that it will require more care in its supervision and management than any other branch of insurance, because of the constantly changing factors in its underwriting and its claim adjustments.

The first underwriters of Employers' Liability Insurance had practically no basis from which to work. A scale of rates was adopted, based largely upon the experience of accident insurance companies in this country. This scale was amended from time to time as it became clear that a risk hazardous for personal accident insurance might be non-hazardous for liability insurance and *vice versa*. For a number of years, however, this original scale of rates was used by most of the companies as their published rate schedule. As a matter of fact, however, until three years ago there was no actual scale of rates, each company accepting business according to its judgment, which in many cases proved to be bad. Within the last three years, however, all of the stock companies in the country, with perhaps one exception, became associated for the purpose of determining the actual cost of insuring the many different hazards to which liability insurance is applicable. It was deemed to be wise to collate the past experience of all companies—not with regard

to the amount of premiums received, but with regard to the actual expenditure for losses based on the wages of employes or otherwise, as the case might be—to determine the actual cost in loss payments as against actual exposure. This work has been and is still going on, and certain important information has been compiled from time to time resulting in many changes in rates. After computing the actual cost of any given class of business, it is a comparatively easy matter to add a sufficient “loading” to cover expenses and arrive at a premium rate adequate for the hazard, assuming that the conditions will remain the same in the future as in the past. Difficulties, however, have presented themselves in arriving at a system of rates for the reason that, as stated elsewhere in this paper, the hazards differ materially in the several States by reason of the difference in laws and the difference in social conditions. The attempt, however, is a step in the right direction, and while the results thus far have not been entirely satisfactory, there is no doubt that rate making for Employers’ Liability Insurance is being gradually reduced to a science. In almost any other line of insurance the scale of rates once established in this way would be a true guide for the future. In Liability Insurance the same rule does not apply, because a scale established and found to be correct for to-day

might be absolutely incorrect for the future. The only safe rule appears to be the making of a scale by past experience and adding to it the necessary factor of safety for legislative and other changes each year.

Environment is a serious factor in Liability underwriting. Not, however, from the same cause that governs other lines of insurance. There are about as many people injured or killed in a given occupation in one part of the country as in another, but the social conditions obtaining in the different sections influence matters of adjustment and of suits to a greater degree perhaps than does the actual difference in statutory provisions.

In the comparatively new States the population is not as homogeneous as in the older and more conservative communities, where whole families for generations have been employed in one industry or mill or factory. Under the latter conditions few claims are made, because the employer is likely to be in close touch with his employes and his kindly treatment for years will always have an influence on his workmen and tend to prevent excessive claims for slight injuries.

On the other hand, in localities where the working classes are made up largely of immigrants from foreign countries, or in any event is of a cosmopolitan character, no such good feeling exists or is

likely to exist, and when claims are made for indemnity on account of injuries sustained, the sums demanded assume proportions which if paid would be a menace to the successful continuance of a business or trade where mechanical labor is a chief factor; and in such communities when claims are resisted and carried into the courts unreasonable verdicts are frequently the result, presumably because the juries are to a great extent in sympathy with the working people as against corporations and capitalists.

Beyond these factors in environment is the variation of statistics and the application of the law in the several States of the country. In some States the fellow-servant rule is strictly adhered to, while in others this rule is made elastic and decisions are usually favorable to the injured person; and in still others the rule is abrogated altogether. Promise to repair, proximate cause, contributory negligence, presumption of negligence and many other legal subtilities, are also widely divergent in application, to such an extent that in the matter of underwriting and rate-making all these conditions must be considered as having a direct relationship to the selection of risk.

The premium charge on Employers' Liability Insurance is based on the aggregate wages of all employees. The question, therefore, of the aver-

age rate of wages has a direct bearing on the hazard. The average annual wages of workmen in the United States is shown by the last census to be something less than \$500. The use of the total pay-roll of any establishment as the basis of the premium charge is on the theory that the wage expenditure will be a correct indication of the number of employes actually engaged. Manifestly, then, the *actual* basis of the premium is the number of employes exposed to the given hazard for one year, and the accepted method of computation at a certain rate for each one hundred dollars of wages expended is on the assumption that the general average is always true.

The total amount of pay-roll during the term of the policy, whether it be for a year or a longer or shorter period, indicates the amount of the premium. A pay-roll of \$100,000 is taken to be equivalent to the exposure of 200 employes for one year or 400 employes for six months and so on.

The general average of wages, however, does not always obtain, and it is a notable fact that the nature of employment and the character of workmen in some States decrease the premium per capita, by reason of the low rate of wages, while the hazard is no wise proportionately improved but, on the contrary, is likely to be worse, because of the lower grade of intelligence of the laborers.

It is a fair assumption that no two States are exactly alike from the standpoint of underwriting, and this sets up another difficulty in the way of establishing any rule of procedure which would be mathematically correct for the whole country. The iniquitous system of taxation in operation in some of the States has an important bearing on the cost of conducting business in such States, and while it is not always wise for insurance corporations to discriminate *against* certain sections they cannot be expected to discriminate *in favor* of places where additional burdens are placed upon them. Each State at least must be rated and underwritten on the basis of the existing or changing conditions to be found in the given locality, and, as the risks are necessarily very much scattered, the statistical information compiled by any one company is not of great value, except in the most populous manufacturing States. The ultimate value therefore, of a perfect compilation of the statistics of all the companies engaged in the business cannot be over estimated.

In the matter of expenses, it may be interesting to make some comparisons. It may be fairly assumed that the commissions paid to agents and brokers on Liability business are far in excess of like expense on other lines, where the premiums are large.

The commission rate may very properly be said to be in the hands of the individual company to control, but it will be well understood that a precedent in this respect having been once established, it is practically impossible to change without uniformity of action on the part of all companies ; and as the agencies of many of the companies are and have been for many years established on a salary basis equivalent to a high commission rate, there seems to be no likelihood of reform in this direction in the near future.

Personal Accident Insurance has always been subject to a high commission rate, and, as most of the companies now engaged in Liability business established their field agencies originally for Personal Accident Insurance, there seems to be no doubt that the high Accident commissions influenced somewhat the rate paid for commissions on Liability Insurance. The rates of commission on the latter have not, however, reached the average of accident business, and it is generally agreed that the present commission on Liability Insurance is excessive, considering the size of the premiums involved and considering also that high commissions on large premiums open the way to the rebate evil which has become a menace to other lines of insurance. The employment also of salaried men at all principal points for purposes of survey

and examination of risks on behalf of the companies is no inconsiderable item of additional expense.

The foregoing refers only to the expense of securing the business. The expense of caring for the business after it is once on the books of the company is infinitely greater than that of any other line of insurance known. The clerical staff must be more numerous and more than ordinarily skilled in the business, the various details of the work requiring constant care and oversight. The loss adjusting department must be supervised by men of the highest order of ability and the detail work in this department requires more skill and a higher grade of men than would be requisite in many other lines of insurance. It may be said that every adjuster employed by the company must have a considerable knowledge of the law and at the same time possess the qualifications of a level headed business man.

It may be stated with some degree of accuracy that for every thousand policies issued there will be in the neighborhood of one thousand notices of accident annually. Under some policies there will, of course, be more than under others, but considering that many of the policies cover work involving the employment of large numbers of men it is not surprising that few except the very small risks escape without any accidents.

Each claim that arises must be carefully investi-

gated and is likely to require many visits and continued expense. The claim is not against the company, but it is a demand made on the policy-holder to whom the company stands in the relationship of counsel. It is not, therefore, a matter of ascertaining the amount of the claim and effecting a settlement for the company, but an examination of all the facts with a view of setting up a proper defense for the assured in the event of an action at law, or of effecting a compromise on behalf of the assured should it appear that the injuries were caused by his negligence. This necessarily often introduces the services of lawyers into the cases, and, as lawyers are probably the best paid professional men in this country, it may be truthfully asserted that to the lawyer is attributable a large part of the expense ratio of Liability Insurance Companies.

Expert mechanical inspections also add to the expense of the business. Each company must maintain a bureau for the periodical inspection of risks. A staff of inspectors, skilled mechanics, must be employed, and the assured must be afforded the protection of this service in addition to the indemnity provided by the policy.

It is estimated that at the present time about \$500,000 is paid out for mechanical inspections by Liability Insurance Companies annually, and for the most part this amount is expended for steam

boiler and elevator inspections. The inspection feature in these two branches of insurance is of paramount importance. While it cannot be shown definitely in how many instances inspections have prevented accidents, it is nevertheless true that in many cases serious defects have been discovered and remedied. Certain it is that inspections at stated intervals by practical men who are trained mechanical engineers have a desirable effect upon employer and employe and tend to good order and method where otherwise there would exist every opportunity for accident.

While the larger part of the expense for inspections is chargeable to the two branches mentioned, general inspections are being extended to all-important risks, and the expense of this department of the business is likely to be increased by the addition of new and untried hazards. The original theory of Liability Insurance was the protection of the assured against heavy financial loss. The practical administration of it, however, contemplates the payment of many small losses which come within the limits stipulated in the policy. If it were possible with safety to the insurer to eliminate the small losses and pay only those beyond a certain stated amount, the expense ratio might be very much reduced, but this does not appear to be practicable. Small losses left to the assured to

adjust would grow into large ones, and the only safety, therefore, of the company insuring would be the handling of every claim, even if the assured paid the damages within certain limitations. By this method the companies' losses would be reduced, but the actual amount paid out for expenses would remain the same, while on the other hand, the premiums being proportionately reduced by reason of the lessened hazard carried by the companies, the expense *ratio* would be materially increased.

Digressing for the moment, let us examine the method of computing the re-insurance reserve of Liability Companies. The requirements for a re-insurance reserve for Liability Companies do not differ materially in the several States where there is any requirement at all for such companies. The rule is 50% of premiums on policies to run one year or less, and on policies to run more than one year 50% of the premium chargeable for the first year and the whole of the balance of the premium. This reserve must be computed on the gross premium named in the policy, and in actual practice works out as follows :

1 year or less,	50%	or 1/2
2 years,	75%	" 3/4
3 years,	83 1/3%	" 5/6
4 years,	87 1/2%	" 7/8
5 years,	90%	" 9/10

The theory of a re-insurance reserve is protection to policy-holders in the event of insolvency of a company or its withdrawal from business for any other reason. In either case, the reserve should be sufficient to carry all policies to expiration. On the other hand, a company might be called upon by individual policy-holders for the cancellation of all policies in force, or it might desire to re-insure all of its business in some other company. In either of the latter cases the reserve should furnish the necessary amount to pay return premiums to the assured or the re-insurance premiums to the re-insuring company.

In establishing this fund, however, no account is taken of the cost of securing the business, an expense which has already been met. Assuming that the business of any one year will average as of about July 1st, it is clear that at the end of such year six months' premium has been earned; but out of this six months' *earned premium* there has been paid, not only the losses accruing during such period of six months, but also the expenses incident to the acquisition of such business. It may be safely assumed that 40% of the gross premiums is a low estimate of the expense of obtaining business for a casualty company, because the average of all such companies for a period covering the last ten years is much in excess of this percentage.

Taking this percentage for a basis, the amount required to provide a fund for carrying all policies to expiration or for the *unearned* six months would be the gross unearned premium of 50% less 40%, or 30% of the amount of premium in force.

If a company becomes insolvent, it may re-insure its policies the same as a solvent company, provided it has a proper reserve. If a company desires to re-insure for any other reason, it may also do so. In either event a re-insurance may be effected for such sum as may be agreed upon between the re-insurer and the re-insured as being the actual *net* unearned premium, *i. e.*, the gross unearned less the average cost of securing the business. Computing this average cost to be 40%, as estimated above, the amount required for re-insurance would be the gross unearned premiums (or 50%) less 40% (cost of obtaining business), or 30% of the amount of premiums in force.

If a company should be called upon by its policy-holders to cancel all policies in force, the amount required to meet such a call would be computed by the customary short rate table.

This table provides a charge of 70% for six months' earned premium; the amount payable for return premiums would therefore be 30% of the premium in force.

The deductions from the foregoing are as follows :—

	(Net reserve necessary.)
To carry to expiration,	30%
To re-insure,	30%
To cancel short rate,	30%
	<hr/>
Required by law,	50%

In making this estimate, premiums on policies to run one year or less only are considered. On policies running more than one year it will be readily seen that the burden is greater according to the number of years of the policy term.

The arbitrary requirement of a reserve equal to the full gross unearned premium would seem to be excessive for casualty companies and is certainly a burdensome provision of insurance regulations, particularly during the earlier period of a company's business, when the reserve required by law is so great as to leave a very narrow margin for the transaction of current operations.

The reserve on life insurance policies, being computed on the net premium, is easily arrived at, because there is a well defined rule for determining the net cost. In casualty insurance, however, the net cost has not yet been reduced to a science, and until such time as the experience of all companies is collated and the proper rule established it will

be impossible to compute the reserve on casualty policies by any such method as is in use by life insurance companies. It is true also, as shown elsewhere in this paper, that there are difficulties in the way of arriving at any true rule for establishing the net cost for Liability Insurance, on account of the changes that are constantly occurring by reason of new legal decisions and the enactment of new statutes. It is therefore probable that the only available means of computing the reserve on net cost is to arrive at such net cost by taking from the premium the approximate amount of expenses.

It may be added here that this statement is made without any desire to advocate a reduction of proper reserves ; but a re-insurance reserve has no relationship whatever to earned premiums, and if the earned premium of six months less *all* expenses of securing business is deemed sufficient to carry the first six months, then certainly the unearned premium of the remaining six months, less *one-half* of such expense should be an adequate provision for the second six months.

If such a reserve be not sufficient, then the difficulty lies with the rate, and it is there the adjustment should be made. This question of rate making is now being carefully studied by all the companies having any experience to guide them, and many changes have already been made, having al-

ways in view the establishment of rates adequate to the various hazards involved. It is to be hoped that the restrictions placed upon fire insurance companies in some States, preventing co-operation in establishing fair and equitable rates, will not be applied to the casualty companies.

The adjusting of losses under liability policies is admitted to be far more difficult than adjustments under any other form of insurance. As an example of this, almost any case may be selected. The assured notifies the company that one of his employes has met with an injury. It is usual for the company to furnish the employer with printed forms for this purpose. The adjusting department of the company on examination of the report may and often does find a lack of detailed information concerning occupation, rate of wages, place of accident, particulars of accident and description of injury. In very few cases is the information given sufficient to determine whether or not the employer is liable by reason of negligence. It is therefore necessary for the company to send an investigator to make a personal inquiry into the facts. The investigator gathers all information obtainable from the employer and also from witnesses, and makes his report to the company. From this report the company may be able to base an opinion as to the liability of its assured for the

accident. Frequently, however, a single accident will require numerous visits to the scene of its occurrence before all the facts can be brought out.

When the company finds there is no liability in the case against the assured, he is so notified and the injured person is not approached at all. The papers in the case are carefully filed, and all the information is at hand in the event of a future claim on account of the given accident.

If, on the other hand, it appears to be a case of negligence, and a claim is likely to be made, negotiations are at once begun for an adjustment as between the employer and the employe, the company's representative acting as the representative of the employer.

Then the actual work of adjusting begins. Before an actual settlement is accomplished and a release given, one or more representatives of the company have made visit after visit to the employer and the injured person; witnesses have been examined and their sworn statements taken; it has been necessary, perhaps, to employ a physician to make a physical examination of the injured person, and in the meantime the case may have been placed in the hands of a lawyer by the claimant. A case which looked trivial in the beginning may be the occasion of more negotiation and expense in adjustment than a really meritorious

claim. Ignorant persons guided by the pernicious advice of unscrupulous lawyers will frequently press claims in which there is no merit whatever.

Within the past few years, and particularly since the advent of Employers' Liability Insurance, our court calendars have been filled with accident cases hunted up by a species of lawyer known as the ambulance runner. These men are a great menace to the public and to the Employers' Liability Companies. They keep themselves well posted by frequent examinations of police reports and otherwise as to every accident that happens, and frequently a person who has suffered a trifling injury will be visited by several such lawyers in the endeavor to magnify the injury into important proportions and encourage the making of an exorbitant claim. Reputable lawyers do not lend themselves to such tactics. It makes little difference to the ambulance runner whether his client has a case or not, so long as he is given an opportunity to bring suit against someone, depending upon the probability that the person sued would in any event be willing to pay him a small sum rather than pay some other lawyer a large fee to defend. He is looking out for himself rather than for his client in nearly every case, and naturally sees in the Liability Insurance Company an opportunity for piracy of this nature

which did not exist before such insurance became an established fact in this country. It does not take long, however, in any locality, to ascertain which of the lawyers have this versatile ambulance chasing propensity and they receive scant courtesy from the companies when discovered.

Under these circumstances it is obvious that the estimating of ultimate cost of outstanding or resisted claims is altogether a matter of opinion, and naturally opinions differ on this subject. Some companies, taking past experience as a basis, assume that all notices or reports of injury received will cost on the average a certain sum in settlement, that all suits brought will average in cost of settlement a certain stated amount, and cases appealed from lower Courts will cost a proportionately higher amount. Other companies estimate each case according to the circumstances surrounding it. It is difficult to say which comes nearer to being right.

It appears to be true that in the early years of the business in this country most of the risks written were those that required little or no solicitation by the companies, because the employers recognized the hazardous nature of their work and gladly availed themselves of the opportunity to insure.

Employers, however, did not recognize altogether

the necessity of reporting every injury. Those that were considered trifling cases at the time of accident were not reported, but such as were reported proved expensive to the underwriters, because of the hazardous nature of the business. As time went by it was found frequently that a case which appeared to be a trivial accident at the outset grew in proportions, and claims were often made in cases where it was supposed by the employer that the injured employe had no intention of seeking indemnity. As the volume of business increased, too, and employers became more familiar with the insurance that was offered by the companies, its adoption became more general and persons who theretofore had not taken advantage of it applied for policies. In this way through the large staffs of solicitors employed by the various companies and the consequent general education of employers to a knowledge of the value of insurance, the less hazardous risks became insured and the assured became more careful in reporting accidents, so that at this time it is probable that the average number of notices of injury per annum is greater for the same number of workmen than at the inception of this branch of insurance. Many establishments now report injuries of the most trivial nature, which, if estimated on the basis of the experience of earlier years, would indicate a premium rate far

in advance of that actually needed, so that at the present time there does not appear to be any sound basis for estimating the actual average cost of each notice. Such a figure may be reached when the business has run over a term of years sufficient to base such an average on an actual earned premium of large amount; but again in this connection appears another difficulty. An employer takes out a policy in a State where the statute of limitations is three years. The company must protect him for any loss occurring during the life of his policy, for which claim is made upon him during the term of the statute, provided, of course, he has given the company notice of such an accident at the time of its occurrence. The statute of limitations varies in the different States, from one year in some States to seven years in others, so that it may be said that the premium of any given year cannot be fully earned until the time of the statute of limitations has entirely elapsed. To arrive, therefore, at an actual basis for any given period of years, the time of the statute of limitations must have expired on all risks of the last year of such period in every State where the business is conducted. There is little doubt that the best method of estimating the value of outstanding losses is to compute the average cost per notice, the average cost per suit and the average cost for each appeal, provided this

average cost can be correctly determined. Considering, however, the constant changes in laws, considering the inclination of legislators in the direction of providing workmen with indemnity for accidental injuries, and considering the slow but sure progression of public sentiment in favor of laws such as have been enacted in many of the countries of Europe for the protection of the working classes, it would seem almost impossible ever to arrive at a true rule, because every year would be likely to change the conditions. Under these circumstances, it appears as if the estimating of each case on its merits is best, for the reason that when a case is estimated the prevailing conditions are known and are taken into consideration and the company is more likely to adopt a factor of safety for each year's business than if it depended on a complete change of its average estimate each year.

Opinions differ widely as to the wisdom of litigation by companies engaged in liability insurance. It has been said on the one hand that the company's advice to the assured should be exactly that of the assured's counsel under similar circumstances. On the other hand, it will be admitted that the counsel of the assured in advising his client, is not by any means in the same position as the insurance company with the function of loss

payer as well as adviser. It is reasonable to suppose, of course, that the lawyer will give the best advice that his judgment dictates. It is clear also that the insurance company should give the best advice, not only by its judgment, but by its actual experience in litigation, because it has to pay the judgment for damages if one is obtained by the injured party. The business in this country has not yet reached that stage where it can be said with any degree of certainty which is the better policy. It is perhaps fair to assume, however, that the more acceptable method so far as the assured is concerned is a prompt settlement and a full release ; and, under ordinary circumstances, settlements can be made to better advantage if negotiated at once than if allowed to drift into the hands of unscrupulous attorneys whose exorbitant fees immediately swell the amount demanded. There is good reason to believe that some sort of a payment for every claim that arises would result in establishing dangerous precedents in large establishments, but, it is contended, if every claim is settled and put aside at once there is not likely to be danger of claims accumulating later on. There seems to be no doubt, therefore, that the most acceptable plan to the assured is immediate adjustment when a claim arises, and there seems to be no doubt also

that with care and good judgment in settlements this method would be the best one for the companies to follow. As has already been stated, however, there is a wide divergence of opinion on this subject, some insurers believing that where a claim is not meritorious, it should be fought to the bitter end, while others contend that even in such cases, if a reasonable settlement can be effected for a sum not far in excess of the cost of litigation, the result as a whole will be less expensive for the company than any system of adjudication through the courts. Time alone will prove which of the methods outlined above is correct; but thus far those insurers who have undertaken by prompt action to clear away liability have shown the best results, while those who have built up a large outstanding liability by reason of suits against policyholders, are as far away as ever from the final determination. This proposition does not apply equally to all classes of liability business. In pure Employers' Liability Insurance settlements are more easily made than in some other branches where the factor of public liability enters; but as an offset to this, while public liability cases frequently require liberal adjustments, so do they often result in large verdicts if allowed to go to trial.

From a paper read by the Hon. George F.

Seward, of New York, before the Insurance Congress of the World's Columbian Exposition, in June, 1893, the following extract is taken :

“ Few employers are acquainted with the law
“ of negligence. When a case of injury arises
“ they call in their own counsel. Every man who
“ has had occasion to employ lawyers knows a
“ tendency which exists among them. Their busi-
“ ness is to conduct litigations. To avoid difficul-
“ ties and to prevent litigation is not the way for
“ them to build up their incomes. I know very well
“ that there are exceptions to this rule. But even
“ if the lawyer is well disposed, his advice to his
“ client in given cases is by no means likely to be
“ so well grounded in knowledge of the law as
“ would be the advice of the counsel of an insur-
“ ance company in the same case. Few lawyers in
“ general practice have, or can be expected to have,
“ broad experience in negligence cases. They are,
“ therefore, far away more likely to err than the
“ trained men of companies, and this leads to liti-
“ gation.”

These conditions have not changed in five years. The Liability Insurance Companies are and always will be able to handle the adjustment, defense and settlement better than individual lawyers, for just the reasons pointed out by Mr. Seward.

It may be well to point out one danger which is likely to be overlooked by beginners who have had no considerable experience in the business.

The result of the first year's operations at the prevailing rates of to-day is likely to indicate so handsome a profit that the inexperienced manager may be misled into the belief that the rates are excessive. There is probably no other line of insurance so deceptive in this respect. The final results of the first year's business will not be known until the time fixed in the statute of limitations has expired, and if business is transacted in States where the statute extends six or seven years it will be seen over how long a period the business must run before the actual loss may be determined. Then, too, in case of accident to a minor, suit may be brought after he reaches his majority, and the company must protect the employer if he held a policy at the time of the accident and fulfilled all its conditions.

It is estimated that the loss shown as having been paid on a given year's business at the end of the second year will be at least doubled before a final determination of the business of that year.

Notwithstanding all the difficulties of conducting Liability Insurance, it is believed that it has become an established factor in the operation of business in this country and that its scope will

broaden as time goes by. Legislation will undoubtedly affect it from time to time, but the principle will still remain, whatever the local conditions, and these conditions will tend rather to regulate underwriting than to discredit the business.

CORPORATE SURETYSHIP.

EDWIN WARFIELD :

THROUGH your great courtesy and consideration I am afforded this opportunity of meeting the Insurance Commissioners of the many States of our great Union in national convention assembled. It is a privilege and an honor that I appreciate.

I have always wanted an opportunity to know the Insurance Commissioners of the various States. In my estimation, no body of State officers ever assembled in this country who supervise greater financial and public interests than you, gentlemen, who compose this convention.

When I consider the millions upon millions of assets of the companies doing business in your respective States, under your immediate supervision, and the thousands of individuals and corporations interested directly and indirectly in the stability and solvency of those institutions, I am greatly impressed by the magnitude of the respon-

sibilities resting upon you, but since I have met you face to face I am assured that those responsibilities are well placed, and that your supervision is intelligent and wise, securing for your respective constituents the very best results and protection.

When invited to come here, I was requested to prepare a paper upon "Corporate Suretyship." I replied that I should be very glad to come and talk informally upon the subject, and I can promise you nothing more than an off-hand address.

Surety companies have been in existence but a few years. They have not a record of 150 years like the fire insurance companies or a record of 100 years like the life insurance companies upon which to predicate a paper. In 1890 I had the honor of incorporating the second company doing a purely surety business in the United States. Prior to that time the Guarantee Company of North America, a Canadian Corporation, was transacting business here, confining its lines to guaranteeing the fidelity of employes of banks and other corporations. In 1884, Mr. Lyman, who had been connected with the Post Office Department at Washington, originated and had incorporated the American Surety Company of New York, which company began business that year. That company broadened its sphere of usefulness by writing bonds for contractors and those in judicial proceedings, in ad-

dition to those guaranteeing the honesty of employees in banks and other institutions.

I believed that corporate suretyship was in its infancy and that there was a great future before it, especially in the field then undeveloped, which was that of insuring the honesty of public officials. My training had been such as to teach me that public officials were as a class just as honest as bank officials or employees of railroads and other institutions, so I determined to make a specialty of becoming surety on the bonds of officers and employees of the United States and of the various States and municipalities. The companies which were then in existence had steered clear of this business. They held that it was extra hazardous, taking the ground that public officials—such as insurance commissioners, for instance—were not as honest as bank and other officials and that the percentage of wrongdoing and dishonesty was greater in public officials than those occupying different positions. I took issue with them and determined to develop that line of business. The undertaking was not an easy one because I was confronted with the fact that the laws of the United States did not permit the approval of any but personal sureties, and that but few States had authorized the acceptance of corporations upon bonds of its officials or in judicial proceedings, thus the field of my special

line was very limited, and I realized that I had before me a campaign of education. This I entered upon with enthusiasm, because I knew what I advocated was for the good of the people.

In 1889, President Cleveland, who had been kind enough to give me a public office, was defeated, and it behooved me to decide whether I would remain in Baltimore or go back to my county and practice law and edit a country newspaper. I decided to stay in the city, and that I would have incorporated a guarantee company. I had given the matter much consideration, and I felt that something should be done to protect the public interests and to relieve men of means of the disagreeable necessity of saying "no" to people who wanted sureties. Just at that time, to emphasize the necessity of corporate suretyship, the treasurer of the State of Maryland defaulted. He had been a member of Congress and had stood high in the councils of his party in the State of Maryland. His social relations were the best, but owing to the lack of proper restraints and protection he fell. He did not steal money, but the negotiable securities of the State were used by him as collateral. These securities were accessible to him individually, and there were no safeguards, such as joint custody, thrown around them to prevent him from using same as he desired.

I went to the Legislature and asked for a charter, because our general incorporation act did not give the power to the courts to incorporate guarantee companies. Now, gentlemen, I believe the history of the Fidelity and Deposit Company of Maryland, of which I have the honor to be the president, is the history of the development of the surety business in this country. So I am going to recount some things in connection with its incorporation, and start in business, which will illustrate my meaning.

As stated, I went to the Legislature for my charter. Having been a member of the Senate, it passed that body, but when I got to the House with that charter, not being as experienced then as I am to-day, as to what powers I should ask for (I was asking for dual powers, that is: the power to act as executor, administrator and trustee, and also to become surety upon bonds, just as they do in Philadelphia, where all trust companies have these dual powers. The original name given my company was the Fidelity Trust and Deposit Company of Maryland), my trouble began. The bill went through the first reading in the House and got to the point of discussion. Then an old friend of mine from an adjoining county got up and said, "If I vote for a charter to this 'Trust' or vote for this bill, I will be hanged on a sour apple tree when

I go home." He had associated the word "Trust" with the "Sugar Trust" and "Oil Trust," and the result was that he made such a flaming speech that my bill was defeated. But I was not discouraged. I saw where the trouble was, so I went up in one of the rooms of the State Capitol, took a pen and struck out the word "Trust" in the bill wherever it occurred. Then I called my friend and said, "I have removed all the objectionable features in this bill; will you vote for it?" He looked it over and replied, "It is all right; you have got that word 'Trust' out of it and I will vote for it." That accounts for the peculiarity of the name of our company. However, I got my bill through. After it was passed by the Legislature I said that the episode reminded me very much of a Texas editor and an irate subscriber who felt that he had been grossly abused and went down to the office of the newspaper determined to cowhide the editor. The editor said, "Now, my friend, what do you object to?" "Why sir, that is the thing," pointing to the objectionable paragraph. The editor thereupon reached over, got his scissors and deliberately cut the article out, and said, "Now, my friend, if you ever see anything in my paper that you do not like, bring it down here and I will take pleasure in cutting it out."

It is probably unnecessary for me to tell you, gen-

tlemen, of the advantages of corporate suretyship, but it may not be amiss for me to recite some of its advantages. It is the best, because :

1. It relieves business men and persons possessing property from the necessity of saying "no" to friends and relatives who may ask them to qualify on bonds of various kinds, which, if they did, would create a contingent liability, impair their financial credit, and involve a possible loss.

2. It enables heirs and next of kin to become trustees, executors and administrators of the estates of their deceased relatives, and to keep the management thereof in the hands of those most interested in a speedy, cheap and proper settlement.

3. It relieves those required to give bonds from incurring obligations by asking friends to become surety for them, and which they would feel bound to reciprocate when the opportunity offered.

4. It removes all liability or excuse for undue influence being exercised over bank officers, railroad employes, contractors and public officials, by those becoming surety for such officials.

5. It insures a supervision over a person bonded, or the estate or interest involved, that will be an incentive to rightdoing and a proper accounting.

6. It guarantees prompt payment of losses, avoids litigation, and enables the official or em-

ployer to know the responsibility of the security furnished them.

7. It often enables persons who have no property or friends of financial standing to obtain positions of trust and emolument.

After I had secured the charter for the Fidelity and Deposit Company of Maryland, I found that I had other obstacles to overcome in order to place the stock of the company. There were many business men who said, "Warfield, you can't make a company like that go; the business is risky and there is no future to it." By May 1, 1890, however, I had succeeded in getting \$250,000 subscribed and about \$25,000 paid in. Then I started business and we have been succeeding pretty well ever since. We now have a capital of \$1,000,000; net surplus, \$1,000,000; reserve and undivided profits, \$600,000. Our pathway, however, has not been of the smoothest character. I found that the public did not appreciate the advantages of the character of suretyship we offered, and that we had just such a campaign of education before us as that which confronted you, Mr. Hegeman, as President of the Metropolitan Life Insurance Company, when you began to teach the people what a blessing to the masses Industrial Insurance is. We had to educate public officials, we had to educate commissioners, we had to educate judges and men who

approve bonds, up to the advantages of corporate suretyship. At that time the Government of the United States was limited in this matter to the approval of individuals as surety upon bonds, and we had to secure legislation in that direction. Finally, in 1894, we succeeded in having passed by Congress an act that authorized the approval of corporations as sole surety upon bonds given by public officers, and in all judicial proceedings in the United States Courts. Then it was necessary to get into the various States, and we found that but few States had laws that authorized the acceptance of corporations as sureties upon the bonds of public officers or in court proceedings. There was no trouble in getting into the several States as an insurance company, and guaranteeing the fidelity of bank employes and others, but that was not the line I was seeking. I wanted to be a public benefactor, and I feel that I have done more by reason of the developments of this special line of insurance to call attention to the advantages of corporate suretyship and to make it popular than could have otherwise been accomplished. Why? Because the public are interested in the character of bonds given by public officers. The people do not care what sureties the banks take on their clerks, or what railroads do in this particular; that is a matter for the directors and stockholders, and also, in the case

of banks, for depositors to look after ; but when you come to court bonds, and bonds of treasurers, insurance commissioners and other public officials, the people have an immediate and deep interest. Now, I think you insurance commissioners are as honest as any other class of men, and I would be very glad to become surety for all of you, any time you desire to be bonded.

It was calling the people's attention to the character of bonds given by their public officials that created this great interest in the matter of corporate suretyship, but I will not bore you with details. I would like to say, however, that when we came to the State of Wisconsin, two years ago, fortunately for this State, it had an Attorney-General and an Insurance Commissioner, each of whom recognized at once the advantages of corporate suretyship, and put their shoulders to the wheel and thus gave their State one of the best surety laws in the United States. We need such men in public office, and I regret that Wisconsin is going to lose their services. I am pleased to learn, however, that their successors have been somewhat educated along the lines laid down by them, so we can hope for a continuation of the good work so well begun.

Now there is one question which has caused discussion between surety companies and insurance

commissioners which I wish to talk to you about, that is: the question of liability assumed by the companies as surety upon bonds of public officials, fiduciaries, etc. It is very easy to determine the liability assumed by life insurance companies.

When an industrial company, or one like the great New York Life, issues a policy, it knows that at some future date it has to pay the amount stipulated in the policy and must provide for it. When a fire insurance company issues its policy it expects to pay the penalty named therein in case there is a fire. In some instances there may be, salvage, I believe you call it. When a surety company executes its bond it does so upon the theory that it will never be called upon to pay it. Its liability is not primary, but secondary. The principal is called upon first and his resources exhausted before demand is made upon the surety. Every liability assumed by a surety company is also protected by an indemnity; just as in double-entry bookkeeping, for every debit there must be a corresponding credit. So we can say that for every bond executed there must be a corresponding indemnity. In many cases, however, where straight Fidelity bonds are given for employes, the indemnity is principally moral and not financial. Various factors must be taken into account in calculating a Fidelity risk; such as the young



man's surroundings, his antecedents, his character and the character, standing and financial worth of his parents. In the case of a young clerk whose parents are of good reputation and means, your indemnity is not the direct indemnity of the young man alone, but it is that collateral and moral indemnity of the father and mother who will sacrifice everything to save their son. Such conditions and surroundings must be taken into consideration, and they have a weighty bearing on the granting of the bond. I have known of cases where sons have gone wrong and where the parents have reimbursed the son's employers for the amount taken in order to prevent the corporation which insured his honesty from being notified of his dishonesty. We all know what a mother and father will do to protect their son and help him out of trouble, and it is that indemnity which should be taken into consideration in connection with such bonds.

The theory of our company is that when demand is made upon us for the payment of a loss, the defaulter has exhausted all his resources, and there is little hope for him. We insist upon prosecution, but we feel that we have no right to interfere between the employer and the employe, if friends come in to protect the guilty. But when demand is made upon us, and this is known and

realized in every section of the country, all hope is gone.

The risk on a Fidelity bond is estimated at the actual liability, that is: The greatest sum that the party bonded could get rid of or steal. The penalty of the bond is fixed at that sum, which the surety company might finally be called upon to pay. We consider such bonds the most hazardous risks. Yet while the Guarantee Company of North America stated that the Fidelity and Deposit Company of Maryland was doing a risky business because it dared to guarantee the honesty of public officials, it assumed this hazardous line of risks as its principal business. Now, I hold that the treasurer of a county is a better risk than the cashier of a bank. We limit our liability on the bond of a cashier of a bank to \$25,000, while we have written the bond of a county treasurer in the penalty of \$400,000 and the real liability on that bond was not as much as on the bond of the cashier of the bank.

In 1896, the bond of the treasurer of Omaha was written by our company in the penalty of \$400,000. Certain newspapers said that our company was doing a wildeat business, and one surety company that wanted to underrate us had the whole thing published in pamphlet form and sent a copy to every bank in the United States stating that

here was a company guaranteeing one risk the liability of which was, according to their statement, \$400,000. As a matter of fact, the actual liability on that bond was less than \$25,000, and I can demonstrate it. There had been a defalcation in Omaha. This treasurer's predecessor had stolen \$130,000, but it took him four years to do it. The whole system of managing the treasurer's department was rotten, and when we were applied to to take the risk I said, "If you will do certain things we will go on the bond."

"First, you must protect us against liability for the funds deposited in bank." They acceded to that.

Second, "There must be a countersignature to every check." They acceded to that.

Third, "the auditor must certify to every tax bill that is paid and must keep a duplicate receipt."

In addition to that the treasurer must make deposits twice a day, at ten and at three o'clock." This demand was also acceded to.

As a result of the arrangement made, the liability was reduced to less than \$15,000, although we carry it at \$50,000. You will readily see that the treasurer could not steal more than one day's receipts, and there is no day in the year when, if he devoted all his energy and ingenuity to devising ways and means to steal, he could get hold of

\$50,000. Yet we were criticised for writing that risk. Let me tell you that we know to-day just how much money that treasurer has in bank, and we not only know it in his case, but we know it in the case of every county, city or State treasurer for whom we have become surety.

In the case of the treasurer of Omaha, we require, as we do in all similar cases, an additional safeguard, which is: That there shall be a monthly examination made by the city comptroller, who must certify that the accounts are correct and the money deposited. Now the treasurer cannot get the money out of the bank because the check must be countersigned by the Auditor, Comptroller and Treasurer, so that the opportunity for tampering with the funds in bank is taken away. The only liability that we really have on that case, and we have had him for two years, is the possibility of his stealing the money he may collect in one day. The average collections there are about \$3,000 or \$4,000 per day, which is the average daily measure of our risk. The premium on this bond is \$1,000 a year.

I am sorry to say, however, that the surety business is being somewhat demoralized, like the fire and other insurance business, by new companies coming in and cutting rates. I hope, however, that the day is not far distant when manhood

and intelligence will come to the rescue, and the presidents of the several companies, instead of jumping at each other's throats, will come together and say, let us adopt rules for our mutual protection.

I will further demonstrate the liability of a surety company. Take the risk of a bank cashier. We go on a bond for \$25,000, and get \$125 for it. There is not a day that a cashier has not the opportunity to steal the entire amount of his bond. The same is true of a teller, but there is not a State, city or county treasurer in the United States whose liability is not being lessened every day. In the State of Wisconsin, for instance, the treasurer must give a bond in double the amount of money he handles. Will anyone say, if he collects \$50,000, that the liability is \$100,000? Will any sane man say that the treasurer could steal even the whole \$50,000? He cannot collect it all in one day. The demands upon him are such that he is paying out as fast as he collects, so that every day in the year the liability is being reduced. It is not so with life insurance. The liability is the same every day. The liability on the bond of a cashier is the same every day. The opportunity and temptation to steal the amount of his bond is before him every moment he is at his desk. This is not so with a

public official. Take, for example, the Insurance Commissioner of the State of Maryland. From the first day of January until the first day of May is the period during which he collects taxes and fees, and he is required to make his report not later than the 30th of June. After that there is no liability. And that is the case in nearly every State. There is a certain period when money for taxes, etc., belonging to the State is received, and the balance of the year what they receive are fees to which, as a rule, they are entitled themselves.

There is one very important point to be considered in connection with the surety business, and that is: that it cannot be safely conducted without the exercise of great caution and care, and a thorough knowledge of the laws of every State in which you are doing business. There are States in which I would not dare to become surety for a treasurer. They are States where the laws hold the officer responsible for the money after it is deposited in bank. I hold that all that should be asked of a public official is that he shall be honest and painstaking in conducting the affairs of his office, and that he should not be held responsible for the safekeeping of the funds of his office after he has deposited the same in a reputable bank. My friend, Dr. Fricke, recommended the enact-

ment of a law covering this point, as did also Attorney-General Mylrea. They had passed a law which required the commissioners to approve the sureties upon the bonds of depositories, so that when the treasurer put money in bank his sureties were not responsible for the solvency of the bank.

When our general counsel came out here to arrange for transacting business in this State, and to secure the necessary legislation, all these matters were gone into fully and explained to your State officials. As we had prepared a digest of the laws of every State in the United States bearing on the subject of corporate suretyship, we knew what legislation to recommend and what safeguards were needed.

I will now take up bonds given in judicial proceedings. I would state, as a warning, that no surety company should write a bond guaranteeing the payment of money at a future date unless it has deposited with it collateral or cash. All executors and administrators in Wisconsin must give bond in double the amount of the estate. In the State of Minnesota all receivers and executors must give bond in double the amount of the value of the estate. To illustrate the watchfulness of the Insurance Commissioner of Minnesota I might relate that when we made our annual report, two

years ago, we received a letter from the Commissioner, Mr. Dearth, whom we have the pleasure of having with us to-day, saying :

“ I cannot understand why you carry your total liability at about \$2,000,000, when I know of my own personal knowledge of one bond for \$2,000,000 that your company went upon, and another bond for \$1,000,000, and another bond for \$400,000.”

Well, that was a natural question. The case in which the two million dollar bond was required was one of public notoriety, and I was very glad to take up that question with the Commissioner, and I wrote to him explaining the matter fully, and he wrote me that my explanation was entirely satisfactory.

The case was that of A. B. Stickney, assignee of William Dawson, who was required to give a bond for \$2,000,000. The assets were \$984,919 nominally, but the bond, as required by law, had to be in double that amount, and was therefore fixed by the Court at \$2,000,000. That, of course, relieved us of \$1,000,000 liability. Of the assets \$744,202 consisted of real estate, all heavily encumbered. The assignee could not steal the real estate, and could not sell it without first paying off the liens, and the amount of mortgages on the property aggregated nearly the scheduled value of the real estate.

The Court, however, could not take this into consideration, but had to take the scheduled valuation of the property as the basis of the bond. The personal property was inventoried at \$240,000, of which \$150,000 consisted of stocks of various corporations, most of which stocks were hypothecated to secure loans. We all know that banks do not give up hypothecated stocks until the claims against such stocks are liquidated. The result of our consideration of the case was that we concluded that it was impossible for Mr. Stickney to have available assets in his hands of over \$200,000 and, therefore, that that was the measure of the actual liability on his bond. The reports in that case show, however, that Mr. Stickney has never had in cash in his possession more than \$15,000. Now what is the real liability on that bond? What would you as intelligent men fix as the actual liability?

The actual liability is what a man could get rid of or steal. So it is upon this rule that we base our calculations and our reports to the various insurance departments of the country. Your departments should only require us to schedule the possible risk, as our premiums upon such bonds are based upon the estimated or possible liability. Our charge in the Stickney case was $1/2$ of 1%, or \$1,000 on \$200,000, estimated as just stated. If

the actual liability had been \$2,000,000 the premium would have been \$10,000. Now Mr. Dearth is a lawyer and can probably more fully appreciate matters of this kind than one who is not a lawyer. He wrote to us and said, "I fully appreciate the force of your argument and can at once perceive that your method of treating the liability is correct."

These questions are constantly arising, and the insurance commissioners should understand that the liability assumed by surety companies is contingent and must, in most cases, be estimated. In Minnesota the costs for bonds are allowed by the Courts, in which case it would be to our interest to increase the premium by increasing the liability.

Other things must be considered in executing bonds for administrators. Suppose Mr. McCall wanted a bond for \$100,000 as administrator of his son's estate. In the State of Maryland he would be the sole heir of his son, and if it was shown to us that the son had no debts, what would be the liability? He is entitled to all of the estate. Then where does your liability come in? Is it not apparent that all these things must be looked into carefully?

We never execute a Judicial bond in any section of the country unless it is passed upon by our resident attorney. In this city, for instance, we have

Mess. Van Dyke, Van Dyke & Carter, and no Judicial bond can be executed until they approve it as a safe risk.

The percentage of loss on bonds in Judicial proceedings is very much less than that on Fidelity bonds, such as those for bank cashiers and those occupying similar positions. Let me illustrate: Twice a week the Executive Committee of our Company, representing a majority of its \$1,000,000 of stock, meet and examine every proposed risk and indicate their respective ideas of the risk in writing, and they are very careful in doing this because in our State they, as stockholders, are liable for double the face value of their stock. In the early history of our company, on one occasion, an application for a bond of a cashier in a bank in the penalty of \$25,000, was presented. The cashier had been employed in the bank for over forty years, and the risk was jumped at by the directors, and very quickly initialed "O. K." The same day I laid before them an application for a bond of the Sheriff of Kent County, Maryland. This was an old slave county, and the bond of the sheriff had been fixed by the constitution at \$25,000. It was fixed in the days of slavery, when personal property generally was very large. I had been in the court house of my county in my early days and had studied law there and knew exactly what the

liability on a sheriff's bond was. I knew that if that sheriff spent the whole two years of his term in trying to devise means to steal and appropriate to his own use the funds of the county, that he could not possibly get \$5,000. The directors hesitated, but I argued with them and finally they approved the risk.

One of our stockholders heard something about the transaction and wrote to me calling it a piece of wildcat business and wanted to sell his stock, which he actually did. That same stockholder, however, thought the bond of the cashier just referred to an excellent risk. Well, we all thought so too, but a year after the bond was executed it was discovered that that man, whom we all trusted so implicitly, was found short in his accounts, and we paid \$17,500 on account of his bond. The sheriff, however, settled his accounts promptly and satisfactorily and we made \$250 by writing his bond.

When I first began my educational crusading throughout the country I usually took my wife with me. Our first trip was through Kentucky, Tennessee and the South generally, and as she did not like to remain at the hotels, she was in the habit of going with me to the court houses, banks and public offices and hearing me tell the same old story. At Atlanta, on one occasion, after we had visited the Governor and Treasurer, we went over

to see the Ordinary, who is the official that approves many court bonds. We went in, and after the introduction I said: "I feel very much at home in an Ordinary's office, for my early days were spent in office as Register of Wills, which is very much the same as your office. I want to talk with you about the acceptance of my company upon bonds." He quickly replied: "I don't believe in surety companies and won't accept them." I was abashed. His name was Calhoun, and you know that old Calhoun blood is pretty testy. So I merely said: "I am very sorry, but I think the day will come when you will change your mind. Good-bye." I got out, and Mrs. Warfield remarked: "I am very glad that you have struck somebody that has sat down on you." And she twits me on that episode constantly. But Mr. Calhoun's term expired, and we had created such a sentiment down there in favor of our company that he had to get up and proclaim that he would accept corporate suretyship because it was the best and safest, but he came to his senses too late and was defeated.

There is one thing to which I would like to call your attention, and what I shall say applies to all companies doing this line of business. Life insurance companies have gone through the sifting process, the slow process of fixing the law applica-

ble to their policies, and their policies have all been passed upon. Industrial and fire insurance policies have been passed upon, and the law affecting them is pretty well established throughout the country. But in the case of surety companies a great deal of litigation will be required to fix liability. The simple fact of a suit being brought on a bond is not evidence in itself that the company refuses payment. The principal for whom we underwrite, and whose honesty we guarantee, has rights that must be adjudicated, and he says: "You stand back! I am amply able to take care of this. I have got means and some rights, and I want the court to pass upon this question before the bond is paid." We can do nothing in such a case except to abide by the result, unless the man is notoriously unable to meet the demand. We have indemnity, and if we are not satisfied we ask additional indemnity. So when you see a notice of a suit instituted against a surety company you must not take it for granted that the company is refusing to pay. Our policy is to pay promptly, unless the principal insists upon an adjudication. We have such a case in Baltimore now, involving \$6,000 or \$7,000. In this case the amount involved is in dispute, and litigation is necessary to determine the exact amount. We are amply indemnified against loss, yet the report is spread about

that the Fidelity and Deposit Company of Maryland is being sued. All we ask of you is that if there is any question in your minds as to the solvency of our company, ask us about it, and we will only be too glad to furnish you with all the facts. That is what you ought to ask every company. There is always some reason for a suit. As I said before, we have got to go through a period of litigation in order to have established the law applicable to corporate suretyship. We have got to stand on the same basis as other insurance companies. The courts are not going to be liberal in their construction of the law. We had one case in this city of a bond that only involved \$89, where the judge said: "Well, I don't think the company is liable, but we have been approving a good many of their bonds and they might as well pay this."

They are going to apply the same rules to us that they do to other insurance companies. The individual surety is always met with sympathy, but the courts will say of a corporation, "You charge for these bonds and we are going to be pretty strict in our interpretation of the law as against you."

Now there is another point that I would like to bring out regarding the dual powers granted to surety companies which authorize them to act as

executor, administrator and trustee and also to become surety on bonds. In our State I secured the passage of a law that required all companies having dual powers, to elect whether they would do the surety business or the trust business. I contended that a company had no right to put the same capital stock behind trusts without giving bonds, and behind liabilities as surety. There are many companies, however, in this country having dual powers, as in Pennsylvania, for instance, where the same company can act as administrator, executor and trustee, and also as surety on bonds. I do not think that should be allowed. I believe a company should act purely as a trust company or purely as a surety company.

I am greatly indebted to all of you, gentlemen, for your attention. My remarks, have, of course, been desultory, but I have endeavored to cover the points that are interesting in our line of business.

Before closing I want to suggest to you Commissioners that when you adjourn this Convention, you adjourn to meet in Baltimore, and that you make the time of meeting November instead of September, as Baltimore weather is more pleasant during that month and our terrapin and other Chesapeake delicacies are then in prime condition. If you will come I promise you that you will carry away with you many pleasant recollections of the

place, and that you will be tendered a most hospitable reception. The latchstring in Maryland hangs on the outside always. Come and see us.

I thank you very much for your attention.

THE STATE AND CASUALTY INSURANCE.

GEO. F. SEWARD :

INSURANCE is generally thought to be a mysterious kind of business in which many things deleterious to the public are practiced. As a consequence the States have legislated much about it and about insurance companies and have provided expensive bureaus to enforce their legislation. Those of us who follow insurance know that it is a very simple business, and are apt to believe that the proper concern of the State in our work is equally simple. Such at least are my own views, and I desire to give in this paper reasons for the faith which is in me.

Insurance, as carried on in this country, is not a public function. It may be made so, of course, by any State which chooses to set up in the business. As conducted by the companies, it is a branch of

private enterprise, pure and simple. The stockholders provide the requisite capital and business plant. There is no partnership with the State, and no pecuniary responsibility rests upon the State; nevertheless the State interferes with insurance enterprises in extreme ways.

Let it be admitted that there is call for a certain care on the part of the State. If a man engages in trade he both buys and sells goods. The insurance man does neither. He sells promises to indemnify against loss. He gets but little for each contract, but his promises may average large and may be numerous. The man who trades in goods may fail. If he does, loss will fall upon a few individuals. When an insurance company fails, the area of suffering is likely to be wide. And there is this further difference between insurance and other lines of business. People who buy merchandise can examine it and know what they are getting. Those who sell can give credit or not, as they please. If they do give credit they can test the solvency of proposing buyers. But the man who buys insurance parts with his money, and is seldom able to estimate accurately the present condition of the company, much less its prospects of permanent solvency.

What the individual cannot do for himself the State ought to do. It should report upon the fi-

nancial condition of companies, and should know that their methods conform to sound rules. The State has no other duty, and whenever it goes further it is interfering without need and vexatiously in the private affairs of the people.

A right manager will welcome all inquiries by the State directed to questions of the solvency of his company because he recognizes the right of the State to make them and because it is a good thing for his company to receive a certificate of soundness. It is good also to be rid of the competition of unsound and irresponsible competitors as a result of the care of the State.

The States unfortunately do not confine their legislation and scrutiny to questions of solvency with incidental inquiries as to methods. They endeavor to do many other things. In doing so they load the companies with expenses and restrict their operations. It is the interest of the public that sound companies should be multiplied. The States have legislated much in ways which interfere with the formation of companies and which burden unduly the companies which struggle into existence.

Take, for instance, the matter of

TAXATION.

I am at a loss to see merit in the course gener

ally pursued by the several States in taxing premiums and in levying other burdens upon the companies under the head of license fees, occupation taxes, etc., etc.

If it is supposed that these taxes are borne by the companies they are excessive. The companies expect to make an underwriting profit of from three to five per cent. Sometimes they do better ; often they do worse. If, now, three per cent. or five per cent. is a normal margin of profit, by what logic is a tax levied on premiums which amounts in some States to one-half of one per cent., and in other States to two and even three per cent.? Is it right for the State having no partnership in a business undertaking and no financial responsibility for its transactions to take from it a tenth part or a fifth part, or all or even more than all of its profits? If the States should tax farmers or other producers on such lines what would be thought of it ?

As a matter of fact, however, the companies do not pay the taxes. They endeavor to load their premiums enough to defray them, and the burden falls upon the insurance consumer.

There are various points to be raised in this connection.

1st. It is a wasteful method of collecting a tax. The insurance company gets its premiums in

dribblets, and it has expenses to meet for management, canvassing, bookings, inspections and adjustments. As a consequence it must collect from the assured the one dollar which it expects to pay for losses and a second dollar to cover the expense account. You will see that the insurance consumer is mulcted under this system two dollars for each dollar of tax that the State recovers.

2d. It is a class tax. The insurance consumers only pay it; the persons who do not insure pay not at all. In fact the incident of general taxation is less for non-consumers in the measure of the contributions of insurance consumers to the general funds derived from taxation, not required for insurance expenses.

3d. It is an illogical tax. It is not based on a man's property, nor on his earnings, nor on his profits, but on an expenditure made to conserve something which he already has, and as respects which he already bears the burden of taxation. It is levied upon the promise of an insurance company to pay an indemnity for loss he may suffer—the loss of life, or of limb, or of property, or from damage suits, or what not.

4th. It is, in fact, a tax upon prudence, upon the self-denial which prudence dictates, upon the means taken to preserve for the individual and for the State the usual subjects of taxation, upon the

means, it may be, which will prevent disaster to the given insurance consumer and his clients, to prevent his family or their families from becoming a charge upon public charity.

If all this is true, and it is not possible to deny the accuracy of my points, then surely the State is not merely taxing insurance consumers too much—it should not tax them at all.

It is a curious fact that the States collect insurance taxes from sound insurance interests and let the less solid interests go free. The policy-holder of the company, with a capital and reserves, pays the tax. The policy-holder of the mutual, fraternal and co-operative company does not. This in effect works a discrimination against stock companies in favor of those which are often weak and often fraudulent. It is a strange sort of procedure to exercise in the name of good government.

I do not think that I dwell on this matter unduly, but perhaps I ought to explain that it is hard for a company to pay out in the way of taxes, even if it does so on behalf of its policy-holders, more than it pays its stockholders for dividends. My stockholders put up as capital the sum of \$250,000. It is not much. They draw in dividends \$50,000 against a premium income of \$3,500,000. The States and the general government take from us about \$60,000 for taxes. It might seem a question

almost whether the company exists for its stockholders or as a subject for taxation; whether the manager who builds a company should be paid by the company or by the State.

POWERS.

Under this head I shall deal with the question of charter privileges and of requirements as to capital.

In life insurance a successful company makes a large accumulation of funds. It is money which should be safeguarded to the last degree because it is held in trust for widows and orphans. Many of the States, with right recognition of this fact, do not permit life companies to hazard their funds by engaging in any other kind of business. Some of them have not drawn the line so closely. The latter States, in my judgment, are unwise.

In these same lax States a savings bank not only can not engage in business of any sort but must invest its funds in carefully restricted ways. The life company has generally a wider range for investments open to it and may, in addition, engage in other insurance enterprises. In fine, the State is more careful in dealing with deposits made by individuals for their own benefit while living and as to which they can exercise care, than it is in dealing with the accumulations of the life companies held for widows and orphans and as respects which

neither the policy-holder nor his beneficiary can exercise adequate scrutiny.

The departure from an intelligent and logical procedure thus stated is found to be wider on examination. The life manager who undertakes accident insurance, or any other line, parades his large accumulations in order to gain credit for his side venture. His side venture may be undertaken because it affords chances for individual profit-making not open in the life department. What could be easier, for instance, than to distribute expenses so as to load the life side unduly and leave greater latitude for the payment of salaries and dividends in connection with the outside lines? Clearly, the life companies should be permitted to do no other business.

On the contrary, no just reason can be advanced why a fire company should not transact plate glass insurance, or a marine company tornado insurance, or an accident company boiler insurance, or a fidelity company liability insurance, or why any company should not do several or all of these lines.

The soundness of this position will be more evident when one remembers that the reserves of all casualty companies are made on the same rule. The casualty company is considered solvent whether it does a marine or fire or accident business,

or whatever other business, which, after putting in reserve all of its unearned premiums and enough money to discharge all outstanding obligations, has its capital intact. There is no other rule in any State, and no other rule is necessary. And if this rule is right and affords an absolute test of solvency, of what concern is it whether the premiums come from one source or many? Insurance depends indeed upon the breaking up of the amount at hazard among a large number of small risks. Why should not the gross amount at hazard be divided among risks of diverse sorts, and effect be given to the old rule against putting all one's eggs in one basket?

I have fought for this principle through the whole period of my insurance experience. I believe in it thoroughly. I point to the success of my own company and to the ever-widening acceptance of the principle as evidence of the soundness of my view. There will be single liners in future; there will be also companies doing several lines. I predict that the latter will be of greater magnitude and greater solidity. That has been the experience abroad in States where freedom of effort has been the rule.

If a company is to do more than one casualty line, always including fire and marine under the head of "Casualty," manifestly the requirement

as to capital should not be excessive. Can you tell me why the Equitable Life can get on with a capital of \$100,000 and a casualty company should be held to need \$100,000 or \$200,000 for each department or branch of its business? As I have pointed out, the test of a company's soundness is in the right statement of its reserves, its capital being intact. Its capital may be \$500,000 or \$50,000, or \$5. If it is intact, the company is sound. The possession of capital in sufficient measure to afford an initial guarantee fund is, no doubt, desirable. But losses and expenses are paid from premiums, and every unnecessary dollar put into capital is a burden. The capital of my own company is small. We transact twenty different lines of insurance, and our insurance liabilities exceed \$600,000,000, yet nobody questions our solvency, nor the prospect of our remaining solvent. Why should they? We do not need to compare small things to great, but we may cite again the Equitable Life. That great institution is solvent because of its reserves, not because of its capital. It makes its reserves according to the rules for life companies. We make ours according to the rules for casualty companies, and with neither of us is the capital of consequence, saving as a nucleus of organization.

DEPOSITS.

I am not averse to a deposit in the State of the company of all or any part of the company's capital. The State will keep such funds safely no doubt, and the right manager having no use for capital, saving as a nucleus of organization and a basis of initial credit, may as well have his funds in deposit as not. But I do strenuously object to the requirement of a deposit in any other than the home State.

The theory is, of course, that such deposits are made for the security of policy-holders in the State. If the idea should be carried to its logical end the demand should not for a special deposit of so many dollars, but for a deposit of right reserves against all business done by the given company in the given State. A deposit of \$50,000 or any other sum may be onerous, or it may be inadequate. A deposit of the right reserves, if the system could be worked out practically, would not be onerous, and it would always be adequate. In this case, as in cases which have preceded, there has been a lack of logic in legislation.

Dealing with the matter further, let me ask, first, what right has a company to make any deposit outside of the State in such manner as to give a preference among creditors? Does any one imag-

ine that if this question is ever brought before the Supreme Court of the United States it will not be ruled that, special deposits to the contrary notwithstanding, the creditor of the company in New York has the same rights in the moneys deposited in Ohio as the Ohio creditor has.

Let me ask next why a company should be called upon to make its capitalization so large as to provide for special deposits in different States. If \$50,000 should be called for in each of forty States, every company intending to enter all such States would need \$2,000,000 of capital. Perhaps some of us who are quite capable of serving useful insurance functions might be unable to finance such large requirements and even more unable to earn enough to pay dividends on the enormous amount.

Let me ask again what results for the insuring public might be expected from a general introduction of the system of special deposits. New companies would not be created. The small ones already in existence would go out of business. A practical monopoly would thus be established in favor of older companies having already large accumulations of surplus out of which the deposits might be made. Would this be well for the insuring public? Is it the way to promote and foster the insurance enterprises of the people?

FORMS OF CONTRACT.

It is supposable that a company may frame its contracts so as to delude the public. The carefully worded conditions common to all policy contracts are pointed to often as evidence of such designs. It may be stated, however, that conditions are introduced into policy contracts for the purpose of excluding uninsurable hazards and to define the hazards so as to give the law of average effect. A policy without conditions would be absolute evidence of the incapacity of the maker of it. However this may be, if insurance is a private enterprise the seller of the contract has the absolute right to offer any contract, not delusive, which he pleases.

Practical instances of the viciousness of State interference with forms of contract may be cited here.

1st. The valued policy law. Under this law a fire company is required to pay the full face of the policy if the property insured is burnt. The objection to this is that it is easy to deceive a company when a policy is procured so as to get insurance for more than the actual value of the property and that the law thus operates to promote fraud.

2d. In one State a law provides that suicide

shall be no defense against a claim under a life or accident policy. In other words a man may take out a policy against accidents in the sum of \$10,000, pay for it, say \$15, for three months and then make way with himself, the company being bound to pay the principal sum of the policy although it has specifically provided in the policy that it does not cover suicide. Ought not this law and the valued policy law to be entitled "Laws to Promote Frauds on Insurance Companies"?

In this matter of the forms of contracts the right theory would be to leave the companies free. Competition between companies will work out all rightful objects.

NULLIFICATION OF CONTRACTS.

The Constitution of the United States provides that no State shall pass a law invalidating contracts. The States deal with insurance companies habitually as if their contracts are to be construed not according to their language and their sense, but in view of the provisions of State statutes. It is, for instance, a settled principle of law that the written, executed and delivered contract sets forth the agreements of the parties, and that where the wording is clear parole evidence can not be introduced to explain the contract. Yet it is a common thing in some States to explain away this or that

provision of an insurance contract by showing that the agent had knowledge of a fact not disclosed to the company. In other words, the document signed, sealed, delivered and accepted as the final expression of the agreement between the parties, and altogether clear in its terms, may be upset by parole evidence of what the assured may have said, or thought he said, to an agent, or of what the agent may have known otherwise, although the policy may distinctly provide that the agent had no right to waive any clause of the policy and that no knowledge of an agent shall work a waiver.

If such liberties were taken with ordinary business contracts what indignation would be aroused.

REMOVAL OF CASES.

It has become common among the States to provide that if suit upon a policy is brought in a court of the State and the company causes the suit to be removed to a federal court, its license to do business shall be revoked. This is a practical nullification of the Constitution of the United States. It appears to me unworthy of any State for that reason and also because it involves an assumption that the rights of the citizen are less secure in the federal courts than in those of the State. This may be true if the State is to say, for

instance, that suicide is no defense, but it can not possibly be true if the old landmarks of righteousness in legislation are to be observed.

Summing up now what has been said, it will be seen that there is ground for the companies to ask the States to refrain from certain courses, as follows :

- 1st. From levying taxes on insurance.
- 2d. From limiting unduly charter powers.
- 3d. From demanding unnecessary capitalization.
- 4th. From requiring special deposits in other States.
- 5th. From dictating the forms of contracts.
- 6th. From legislating so as to annul the clear intent of contracts.
- 7th. From refusing to the companies access to the federal courts.

You will see at once that our grievances are such as have been common in all ages and all lands. It is the undue and unnecessary interference of the State with the liberty of the individual of which we complain.

The case as presented so far is incomplete in one underlying and fundamental particular. The State not only legislates against us overmuch and unwisely but it provides a system of administration under which the companies are frequently denied the trial of serious issues by the courts.

Commissioners of insurance in some States are authorized to refuse to issue or renew licenses whenever in their judgment the public interests demand such action. There may be thus destroyed, at a blow, prescriptive rights and constitutional rights at the will of an individual who is not clothed with the judicial ermine, and who may not even give to the company affected a hearing.

Commissioners of insurance, again, are authorized to examine companies and to report to the public upon their condition. It is conceivable that a commissioner, acting in all honesty, but from ignorance or incapacity may declare a company insolvent, and thus bring about its ruin.

I have known a case where a given commissioner did declare a company insolvent and did simultaneously declare another company sound. He mistook the facts both ways; the first company was solvent and lived notwithstanding his bull, the second was insolvent and died.

I have known a commissioner to embrace in a report of the examination of a company an arraignment for dishonesty of certain directors who were men of repute and integrity in a notable degree and were innocent of all offense.

There is a word that fitly describes the practices of the States in the matter of insurance legislation at large and in this particular matter of granting

undue powers to commissioners. It is "paternalism."

Paternalism, pure and simple, seeks to control the citizen as if he were incapable of self-guidance. It substitutes the will of an officer for law. It knows no courts saving itself and is bound by no precedents. It is placed by law above law.

In its place paternalism is doubtless a good thing. If one may believe tradition, paternalism prevailed on this continent, from one end of it to the other—prior to the time of Columbus. It doubtless served a good purpose then. The government of China is paternal. If in the course of time that government has become more concerned about its own prerogatives than the welfare of its people, we may not be surprised, nor need we say, that the paternal system has proven altogether vicious there. But in this country paternal methods are not popular and can not long endure. If it were paternalism pure and simple, with one lord paramount, we might get on more or less well. But we are not let off so easily. We are subject to the concurrent rule of forty paternal establishments more or less. Do you wonder that we poor insurance sinners and saints often use the language of the Episcopal ritual, saying: "Good Lord, deliver us"?

I know of nothing likely to be so effective to

cure paternalism in insurance legislation as the study of insurance problems which you are making. You are investigating these problems individually in your several places. You are coming together occasionally and discussing them in concert; and that no means of information shall be lacking, you have on this occasion asked some of us who are interested in insurance enterprises to come before you and present our views. If there is merit in what we present, I take it for granted that you will perceive it, and thereafter that you will, as behooves good citizens and officers, take up the points in order to secure the abolition of bad laws and the making of better ones. You are all ambitious to serve the public interests. How much could you not do by deciding together upon the principles of the legislation needed, by promulgating the same with your endorsement, and then as individuals working upon the legislative bodies of your respective States to give effect to them in law?

But to revise legislation in forty States will take time, and the situation demands an instant change, which may be brought about by each one of you of his own authority, in his jurisdiction. Let there be an abandonment on your part of paternal methods. If you ask how this may be done, I answer briefly—seek to make no decisions yourselves

of matters which can be taken in any way before the courts. The threat to withdraw a license as a means of enforcing a view, your view, of the law, is an unworthy thing. The courts are present to try such issues, whatever they may be. No person, and in the category of persons may properly be included for the purposes of this argument insurance corporations, should be deprived of life, liberty or property without due process of law. And process of law is not the will of an insurance commissioner, of a person clothed with a little or much brief authority, it is the process of law known to the courts. There is not one of you who cannot refuse to be arbitrary. If Washington and even Cæsar refused the kingly crown, surely an insurance commissioner may refuse to be a despot, even, if that shall be necessary, by laying down his office. If a man's proudest title in this land is to be an American, surely it should be unworthy of an American officer to do things which are un-American to the last degree.

Gentlemen: We insurance men love our profession. We find in it all that a business man at large can find to interest him. And we find more. We are conducting private enterprises, but they are enterprises which involve in large measure the well-being of our fellow-men, and, through them, the well-being of the great community of the

American people. The insurance man loves his work, then, measurably because it is a work of philanthropy. For you, guardians of the people, the same sentiment must prevail. You are not present merely to spy out our methods, to deal with us with suspicion, but, under any right sense of your responsibility, it should be your chief work to promote and foster our work.

Speaking for myself I desire to add that I ask at your hands for consideration of what I have said on the ground of my own personal lack of interest, from a business standpoint in your conclusions. An old company well established can sustain all the evils which I have depicted. It may indeed have a broader field because of the restrictive legislation which prevents freedom in the formation of new companies and makes the success of all more difficult. However this may be I have talked to you the truth as I see it.

And in talking to you the truth as I see it, I do so with sincere respect for your organization and for you as individuals. From the beginning of my insurance career until now I have relied upon insurance departments for fair dealing and a helpful disposition. In doing so, I have seldom been disappointed. When differences have occurred, or when it has seemed to be that the course of a given commissioner has been inconsiderate, I have en-

deavored to extend to the individual that charity for which all of us stand in need, remembering in particular that the field of administration is new, and that much time will be required for the determination of those methods which will best conserve the various interests involved.

INSURANCE AND THE LEGISLATOR.

JULIUS E. ROEHR :

A UTOCRATIC power, absolute dominion over others and their affairs, their persons and property, history pictures as a concomitant of barbarism founded on ignorance and superstition. It flourished thousands of years. However, intellectual development, advancing civilization, made constant inroads upon this privilege. Abuse of power caused reflection. Reflection a determination to compel recognition of elementary rights. Kings were shorn of Godly attributes. Following this success came advances upon their worldly power, and finally the people again recovered what they had originally possessed—the right of self-government. We still have kings, but they are in many instances the creatures of representative bodies and a constitution. In the United States the Constitution is the fountain head and source of legislative power and governmental function. From its source flows the only stream which moves the legislative machinery, and all legislative acts are offsprings of

this power. Its provisions have been strictly upheld by the highest judicial tribunals. Legislatures offending its word or spirit have found their acts speedily annulled. For over one hundred years it has stood, the bulwark of the freedom and liberty of our people. While framed for the government of but a few States, with a comparatively small population, it has been found sufficiently broad for the government of forty-five States, with a population of about 70,000,000. It is the admiration of every student of history. The wisdom of its founders will continue to be revered by future generations.

Pursuant to the plan of this Constitution, legislative functions are exercised by representative bodies of each State, now to the number of forty-five. They all enjoy the right to legislate on many subjects, concerning which the right has not been reserved to itself by Congress. While the States are coherent and form a union of unrivaled power and strength, each State acts independent of the other in legislation. The acts of each govern and control within the limits of each State. The result is in many cases widely divergent laws on the same subject in each State. In nearly all instances experience has demonstrated that this is unwise. A great number of important questions have arisen in which the laws of different States conflict. It is

often a difficult matter to determine which law applies to a given case. Judges and jurists have been puzzled to determine the effect of the laws of one State upon a person or his property rights in another State. On the subjects of "divorce" and "bankruptcy" a view of the differing laws of forty-five distinct States gives the looker-on a kaleidoscopic picture. The difficulty mentioned has given rise to many decisions under the branch of law known as "Conflict of Laws," and the private international relations of the States of the Union have been the theme of many learned treatises. As important as either of these two matters is the subject of insurance. Thirty-seven years ago, at the outbreak of the Civil War, sixteen life insurance companies of the United States had in all 56,046 policies in force, representing \$163,703,455 of insurance. To-day it is estimated that the policies carried in this country number nearly 14,000,000 representing \$15,000,000,000. These great interests have not in general been accorded the attention they deserve. Few understand the science of insurance. Principally insurance companies or those affected by some oppressive act on the part of the company, have interested themselves in insurance legislation. It has now, however, come to be recognized as a question demanding the most conscientious and careful study and the

greatest consideration on the part of the people's representatives. Insurance interests have grown so large, so important, that legislators can no longer close their eyes to a subject so vital to the people and important to the State. The first remarkable fact which strikes one investigating insurance legislation, is the deplorable condition of the laws of different States of the Union with regard to uniformity. That companies, who have to a great extent influenced legislation throughout the United States, have permitted this state of affairs to arise is of itself surprising. That legislatures should act without any regard to the laws of another State on this subject is not at all surprising. It may be taken for granted, and I say it with a firm belief in the truth of the statement, that the percentage of members of any legislature with a knowledge of insurance matters is very minute. We enact a law in Wisconsin and say to foreign companies, "Come in if you will, but conform to this law." Another State passes a law and imposes the same or some other condition on Wisconsin companies. Neither State legislature attempts in any manner to conform these laws to one another. This has resulted in the enactment of the most mischievous of all insurance legislation known as "Retaliatory Laws." These were enacted to be used by the legislature of one

State as a lever upon the legislature of the other. The intended purpose was that where the law of some other State imposes additional requirements or charges, greater than those charged in this State, then such additional charges and conditions shall be imposed on companies whose domicile is in another State who propose to do business here. The operation of this class of laws is universally conceded to be detrimental to the interests of companies and their patrons alike. Retaliatory laws should be repealed.

A cardinal principle in insurance is that the insured pays not only the amount necessary to secure the payment of his insurance. He pays the expenses of procuring the insurance from him, he pays the salaries of the officers, the rent and expenses of the company, and he also pays all the taxes, charges and fees which are imposed on the company by the State. The insurance company actually pays nothing, for they simply act as the medium between the policy-holder and the State. As to charges and fees demanded by the State, they act practically as tax collectors. While this is elementary, I believe it to be a fact which but few, except those who are directly interested, have considered or really understand. The conclusion from this fact is that every tax or fee levied against an insurance company is simply a tax in reality

against the insurer. The difference between this and the method of ordinary taxation is that in one case the State collects the tax directly, in the other case the company collects it for the State. Want of uniformity in laws in the different States has undoubtedly contributed to increased expenses for the insurer. The first step in the direction of better insurance legislation is uniformity of law governing insurance companies in the different States. A convention of insurance commissioners, representing all the States of the Union, ought to be a powerful means of attaining this object. Who, except a lawyer when thereunto duly retained, ever attempts to know anything concerning the insurance laws of another State, unless it be the insurance commissioner? The latter is daily in contact with companies of his own and other States. He is at the head of the insurance department, whose business it is to protect insurers in his State from imposition and fraud. To do this effectually, he must, above all things, have a thorough knowledge of insurance laws throughout the United States. To him and his department all classes of people appeal for instruction and help. No doubt that he can direct, form and shape the legislation of his State to a considerable extent. Gathered here at this time are nearly all the insurance commissioners of

the United States, and united effort by them in their different jurisdictions could be of great benefit. Legislators should regard the proceedings of this convention as authoritative. In Wisconsin we have the good fortune of possessing an insurance commissioner who has made admirable effort to convince the legislature of the soundness of this proposition. If his energy has not been immediately fruitful, there is no question but what he has aroused public interest to a high degree, which cannot but result in great benefit in the future. The American Credit Men's Association, by concerted action in annual conventions, followed by united effort at home, succeeded in comparatively few years in obtaining the enactment of local voluntary and involuntary bankruptcy laws uniform in many of the States. Involuntary bankruptcy was unknown, except by national legislation, until the Credit Men's Association took hold and directed its introduction in the several parts of the United States. To their efforts is due the recent enactment of a National Bankrupt Law. The success of this body of men ought to encourage a convention of insurance commissioners in the work of obtaining uniformity of legislation concerning insurance. They, the credit men, had one great advantage—their interest in those questions is continuous. The interest of an insurance commissioner is

liable to expire with his office, and the great obstacle in the way of continuous interest in the great questions of insurance on the part of an insurance commissioner is uncertainty in the tenure of his office. While it may seem presumptuous on the part of insurance commissioners to advocate the abolition of the elective features of their office, yet, in view of the great benefit to be derived, all insurance commissioners should unhesitatingly advocate the appointment instead of the election of incumbents of that office. They should hold office subject to removal by the Governor of any State for cause until age or disease has destroyed their usefulness. An insurance commissioner may be an ideal one, thorough in his understanding of the science, strong and inflexible in carrying out the provisions of the law, honest and upright in the discharge of all his important duties. He may during his short term, which in most cases does not exceed two years, be able by untiring labor to achieve marked beneficial changes. If his political pull is not strong enough to obtain re-election or re-appointment, some other commissioner is substituted. Unless he is an expert, it will require many months of careful and constant study to familiarize himself with the laws affecting his department. His term expires to introduce another, and his successor makes the same journey.

I had the pleasure of being a member of the Committee in Insurance of the Wisconsin Legislature of 1897. My brief experience there convinced me that the present system of electing insurance commissioners was folly. The interests affected are so vast, the laws governing them so diverse, the science of insurance so advanced, that none but an expert could safely traverse this important subject. To one inexperienced, with but little knowledge of what is at stake, with less knowledge of the laws governing, with inadequate conception of the science of insurance, it is like embarking upon an unknown sea without a guide, pilot or a compass. The head of an insurance department of any of the great States of this Union, ought to be a skilled expert, selected because of his ability and genius and not the caprice of a political convention or the present favorite of the appointing power. He ought to be retained at an adequate remuneration and there can be no question but what the price of his services would be saved over and over again in a few short years. This, then, should be one of the prime objects of the legislator: To constitute insurance commissioners and their departments institutes of permanence and not fitful objects of political fancy. Again, there is no doubt but that so constituted, unanimity of effort on their part would, beyond peradventure,

result in the correction of many existing evils. Their position in the governmental machinery would be much more important than it now is, and suggestions and advice emanating from such a source would be received by the legislator not only with greater consideration, but also without suspicion.

One of the primary matters to be kept in mind is the security of the policy-holder. The company is usually managed by astute and able men, who are paid high salaries in consideration of their valuable services to the company: they take care of the company's interests. To the legislator are confided the interests of the policy-holder; to protect them intelligently is the problem presenting itself to him. When the great interests involved are considered, it is exceedingly strange that in these modern times there is a class of insurance which is permitted to exist without regulation assuring safety to the policy-holder. The amendment of existing laws on this subject is imperative. Few realize the disaster which constantly results by reason of the operation of sepulchral insurance schemes. The facts regarding dishonest companies ought to be constantly held up to the legislator until relief is granted. It is astonishing to contemplate this situation. There are 135 companies, associations and organizations licensed to transact the business of life insurance and reporting to the

Wisconsin insurance department, for twenty-six of which only the law fixes a standard of solvency. Why this discrimination? Why should not every company or association, receiving money of the people for investment and return, be compelled by law to so arrange its plan and method of doing business that the policy-holder need not be apprehensive of failure of the company? Here again the legislator is charged with a great responsibility. The interests of the people—his constituents, demand that he insist upon honesty on the part of insurance companies, associations and organizations who are permitted to organize by the State. It is certainly reprehensible on the part of the government to grant a charter to a company which permits it to defraud the public. This proposition sounds startling, but in many instances it is done. Insurance companies are permitted to exist under a plan which has stamped upon its face the seal of a speedy death. Insurance, without a required standard of solvency, is the bane and striking evil of the present day. It is a wrong which finds expression in thousands of wails from unfortunate policy-holders when disaster riddles the bauble. The best part of a life, the productive period, is spent in contributing to a fund which knows no reserve. The time arrives when assessments become so large

that they cannot be paid ; one after another ceases to be a member, then comes the death. The policyholder has arrived at an age when he cannot gain admission or purchase insurance elsewhere and all his savings are gone. He has lost his money and his insurance ; and all this with the consent and approval of the legislator.

The promoter of assessment companies is found in the halls of the capitol. His smooth, plausible representations find a ready ear with the unsophisticated member, and being the only one on the ground, he is altogether too often successful in avoiding legislation compelling his company to be honest. In the legislative session of Wisconsin of 1897 it was attempted to establish a standard of solvency for this line of insurance and to require every order and company doing business upon this plan to conform to it. Strange to say, representatives of these companies were sent to Madison, Wisconsin, to defeat the effort. By using unwarranted arguments, by maligning the motive which prompted the proposed legislation, by vicious attack upon the law and its author, they succeeded in arousing a prejudice and hostility which was amazing, and succeeded in defeating the measure. The following was substantially the provision :

“ The Commissioner of Insurance shall annually value, according to the actuaries' table of mortal-

ity, with interest not exceeding four per cent., the policies of all life insurance companies and associations organized in this State, and of all life insurance companies and associations of other States authorized to transact business in this State, unless a certificate of such valuation by the insurance commissioner of such other State is annually furnished before license to transact business in this State is granted, and whenever the actual funds of any such company or association are not of a net value equal to the net value of its policies so calculated, the company or association shall be prohibited from issuing any new policies while such deficiency exists, and the Commissioner of Insurance shall, if necessary, issue an order upon the company or association to make good such deficiency by an assessment upon its policy-holders. The Commissioner of Insurance shall immediately revoke the license of any life insurance company or association failing or refusing to comply with any of the provisions of this section."

This provision is one which should speedily be enacted into a law. It is a matter of congratulation that fraternal and assessment companies are beginning to understand the necessity of doing business on sound business principles and that future regulations of this kind will not meet with as much opposition as they have in the past.

This is one of the most important subjects for the consideration of the legislator. When the time arrives at which a member of such an association finds himself tricked out of his insurance, he naturally inquires, Why does the law permit this thing? Why am I not protected as well as my neighbor? What answer can be made? This matter should be constantly agitated until relief comes. Regulative statutes have taken wide scope in recent years. The public is protected from adulterated foods, quack doctors, illiterate plumbers and unskilled tonsorial artists. How trivial some of these interests are compared to the one under consideration; and yet, here there is no protection. This offers a great opportunity to the statesman. He who will succeed in enacting and enforcing reasonable provisions, insuring the safety of the investor, will erect an everlasting monument for himself and reap deserved encomiums from future generations.

To the observer and student of insurance, there is another striking feature which it seems to me calls for regulation,—namely, the expense of management in mutual and stock life companies. It may be said at the outset, that policy-holders in mutual companies, all having a vote, are themselves responsible for the management of the company. However, a proxy vote is usually one for the management. If some means could be devised

to obtain a direct vote upon questions affecting the management of an insurance company, the results undoubtedly would be beneficial ; but until that is done there is not likely to be a change. Some insurance companies have grown to such vast proportions that they are quasi public corporations. Their affairs are so large as to encompass the interest of thousands of citizens. The State has not only the right, but the duty to protect them. These great corporations are managed by officers elected by proxy votes. They all make creditable showings. They compete in paying dividends. But I am of the opinion that in general, expenses of management are altogether too high and that more should be returned to the policy-holder. All insurance companies should be compelled to make public itemized statements of expenses. Expenditures of other public and quasi public corporations are required to be itemized and published and can easily be found. Not so in the case of an insurance company. The required publication would lead to reform in management and perhaps an appreciable reduction of expenses making insurance cheaper. Does any policy-holder of fire or life insurance know what percentage of the premium he pays is used by the company for expenses ?

It occurs to me that it would be wise to compel the insurance companies to state on the face of

each policy in plain print the exact amount or part of the annual premium to be used for expenses and thus make it part of the contract. The result would unquestionably lead to competition in the reduction of expenses by the companies. Every policy-holder would have accurate information on the subject.

In life insurance also individual accounts should be kept with each policy-holder and his account credited with the amount paid by him and charged with the respective items of indemnity, reserve and expense. Upon application, certified copies of his account should be furnished. I believe some such system is in vogue in every bank, building and loan association or investment company. Why not in insurance corporations?

It has often occurred to me that the accumulation of this enormous surplus is entirely unnecessary and unwarranted. Insurance is often solicited and induced by the showing of a large surplus as though the policy-holder was to derive some benefit from it. But a policy-holder is not a stockholder. The policy-holder will be awarded what his contract calls for. Dividends or shares of surplus profit are only estimates. They are not his as a matter of right, but he receives them by the good grace of the company. Of course, companies compete in the payment of dividends. But it seems to

be a mutual understanding to retain a very substantial addition to the surplus. Many companies could wind up their business to-day and have millions over for distribution among the stock, not policy-holders or those policy-holders in strictly mutual companies possibly, whose policies are in force, not having been paid up and surrendered. What is to become of it? Who owns it? When is it clearly understood that this "surplus" means over payments on the part of the policy-holders and interest earning over and above that necessary to maintain the reserve,—that it seldom or never represents a saving from the expense element, the legislator will not seek far for the remedy.

For whom is this surplus being accumulated? In the recent case of *Greef vs. The Equitable Life Assurance Society of the United States*, decided in New York, it was held that under the charter of the defendant, the statutes of New York and the terms of the policy issued to the plaintiff that,—the defendant company was not liable in an action at law for an undeclared dividend or share of the surplus profits of the defendant company over and above the amount of his policy and certain additions, to the accumulation of which had been devoted his annual dividends or share of the surplus profits as allotted to him by the company. The court was of the

opinion that whether an insurance company can lawfully exact such a contract as was exacted from the plaintiff is a question between the company and the State from which it derives its charter, and that it would seem that no such question can arise between the company and its policy-holders, who are under no compulsion to make the contract. "In the case of a stockholder, whether a dividend be declared or not, he remains the owner of an interest which increases in value by the surplus accumulated ; and such surplus, by ultimate distribution, will be shared by him. But the policy-holder has no share or interest which increases in market value by the accumulation, and, as his account with the company is closed by the payment and surrender of his policy, his right to a share, if any, of its funds must be determined without reference to the rules which govern the continuing relations of a stockholder with his company." The attention of the law-maker should be directed to this question. The power of the company to accumulate a surplus at will should be curbed. The maturing policies should be accorded their proper and reasonable share of the earnings. Legislation on this line would leave the safety of the company unimpaired, yield the policy-holder a larger return and thus cheapen insurance. The blessings of safe and cheap insurance will be most effectually be-

stowed by bringing it within the reach of all the people.

It should be impressed upon the mind of the legislator, that insurance in its proper sense means indemnity; that in this realm the doors should be absolutely closed to speculation; that it is not the proper sphere for speculative investments. Laws governing insurance should be so framed that speculative schemes become impossible,—they lead to risky investments with many disasters. Clean, straight indemnity is the only safe insurance. In granting charters to insurance companies, stringent requirements should be made to ensure stability. There should be a standard of solvency for every class of insurance. No kind of insurance should be tolerated without such a standard and this should be strictly enforced no matter under what plan the company be organized. In fact, the distinguishing feature of all legislation on the subject of insurance should be safety. The present system of examining insurance companies might be much improved. It has recently developed that even insurance commissioners are human and that over-examination is a possibility. Examinations of insurance companies are made for the purpose of establishing their soundness. Pursuant to the laws of the different States, an insurance commissioner may refuse admission to his State if of the

opinion that the company applying is unsound. This is eminently a power vested in him for the benefit of the people of his State. In order to determine the soundness of an insurance company, the insurance commissioner, if he desires personal knowledge on the subject, must make an examination of its affairs. This entails expense. He must have assistance which increases the expense. The practice has been for the companies to pay the price of such an examination. After admission of the company into the State, it becomes discretionary with the commissioner to re-examine the company whenever in his judgment it may be proper so to do. Here is a temptation which might prompt an over-zealous commissioner to examine with a vengeance. This method is, in my opinion, easily reformed by an enactment providing that in each State the insurance commissioner shall be required to make periodical examinations of his home companies. Such enactment should also provide that the expense be paid by the State, since it is a matter which goes to the safety of the investments of the citizens of the State. The custom of the company paying for such examination is one which is not only unjust and absurd, but dangerous. It has upon its face the appearance of a certificate of solvency exchanged for so much cash. The reports of each commissioner should be

filed in his office and a certified copy furnished to the Commissioner of each State in which the company transacts business. A company applying under such a law to do business in any particular State should be admitted, all other requirements having been fulfilled, upon the certificate of the Insurance Commissioner of its home State, certifying that such examination has been made, that the company has been found solvent, accompanied by a copy of the last report of the home insurance commissioner. Under such a system the certificate of the Commissioner should be a guarantee to every insurance commissioner of the soundness of the company. Haphazard examinations by commissioners and their assistants, traveling long distances at the company's expense, would disappear. Besides accomplishing satisfactory results concerning the soundness of a company, it would tend to cheapen insurance by reducing expenses. A compilation of the amount annually paid by insurance companies for examination fees would be interesting. I have not been able to find one, but the total amount must be considerable and is undoubtedly considered in calculating the cost of insurance.

Insurance should be made cheaper as well as safer. In all classes of insurance the expense of conducting the business largely affects the amount of the cost. Other causes sometimes create higher

prices. In fire insurance, serious conflagrations sometimes influence local premiums. It is generally claimed that the cost of insurance is excessive; that the insurance companies are reaping large and unwarranted profits; that if insurance was sold at a fair and reasonable figure the rates should be decreased at least twenty to twenty-five per cent. As in other cases of real or imaginary shortcomings of the company, the legislator is appealed to for relief and the problem is how to decrease the cost without endangering the security of the insurer, or what is equivalent thereto—the safety of the company. The first inquiry to be made is as to how the insurance premium is arrived at and to determine what items are considered and calculated which go to make up the whole amount. In fire insurance the want of an experience table leaves the amount to be charged for the risk to the experience of a single company or judgment and opinion of the underwriter. After that amount is determined, a certain amount is added for reserve and an addition is made for the expense of procuring the insurance and the management of the company. Commissions paid in fire insurance are excessive. The amount thus paid to agents on fire insurance in the United States is enormous and the injustice of it will appear by a very simple example. We will take an insurance policy upon which

the annual premium is \$100.00. Suppose the agent is paid twenty per cent. which will be \$20.00. In ten years the agent would receive \$200.00 or two years' premiums. This is certainly an injustice to the insurer, for it is he who pays this commission. The general idea is that the company pays the agent who solicits the insurance, but that is a delusion. The insurer pays the premium, the agent who collects it deducts his commission, the balance goes to the company. Who then pays the commission? Insurance companies, unless by agreement, have no uniform rate and are always competing for business and so commissions are often regulated by the class or grade of the risk. First-class risks yield the agent first-class commissions and as a class or risks are graded downward the commission follows. There is no doubt but what this item of agents' commissions contributes towards the cost of insurance and increases it by at least twenty per cent. If the commissions paid to agents could be reduced to a fair and reasonable amount, such a reduction would unquestionably accomplish a large saving and make fire insurance cheaper. Of course, the agents would oppose such a movement, but I firmly believe that the insurance companies would welcome the change, providing it could be made binding upon all companies and the rates made uniform, for making insurance cheaper

it would make it more popular. The commissions now paid, I believe the companies will concede, are extravagant and here we have located one of the items which cause some of the trouble. It would be useless to suggest a compact among the companies to limit or modify the amounts paid for agents' commissions. Compacts of that nature are made only to be violated. Pools or agreements in that direction are for the most part successful tempters. Temptation lurks in every line of a pool contract. The law-maker can afford a remedy which will cure the evil, and I suggest the enactment of a law providing that it shall be a misdemeanor to pay or receive more than fifteen per cent. of a fire insurance premium for an agent's commission. I incline to the conviction that the cost of insurance would thereby be reduced at least fifteen per cent. Another manner in which fire insurance could be cheapened would be to issue long term policies, say for ten years, and pay the agent's commission upon one premium, upon the first annual premium for the whole policy, thus effecting a saving of nine years' commissions to agents. The insured would receive the benefit by the decrease of expense. Some provision could be made for wear and tear or deterioration in value and thus perhaps some reduction of the expense might be accomplished without recourse to legislation.

In life insurance, the amount paid for the procurement of business is extraordinary. It is commonly known that some companies in competition pay as high as one hundred per cent., or the whole amount of the first premium, for commissions, and an annual renewal commission on subsequent payments made by the insured. What is true in fire insurance is also a fact in life insurance and that is, that after calculating the mortuary and reserve elements of the premium, a large loading is added for expenses and it is claimed that the expense of obtaining the business has grown so large that a policy must remain in force two and three years to repay the excess of expense taken out of the surplus belonging to the older policy-holder. The agents' commissions should not be paid wholly out of the first annual premium, for the reason that such a course operates unjustly upon the other policy-holders. Not to exceed fifty per cent. should be permitted to be deducted from the first annual premium and the balance, if any, cast upon the second. If there could be brought about a competition of economy of management in life insurance, it would be a great and bountiful blessing to our people. It would tend to the extinction of unsafe assessment insurance companies and would so popularize life insurance that thousands and tens of thousands would avail themselves of the opportunity to invest.

In looking over the vast and complicated field of life insurance for a remedy to alleviate this difficulty, it strikes me that the law is the only power which can be successfully appealed to in the matter and there should be State and National legislation curbing the wanton and extravagant expenditure of moneys for agents' commissions in life insurance. The amount to be paid should be limited by law. What that amount should be, I have no data at present to determine, but in my humble opinion it should not exceed fifty per cent. of the first annual premium. The reduction of commissions to fifty per cent. of the first annual premium would reduce cost of life insurance by giving greater returns to the policy-holder.

It is a well-known fact that in fire insurance at least ten or twelve per cent. of the premium is expended by the companies for rating and adjustment expenses. The reason is that each company employs its own agents to perform this service, Co-operation by insurance companies would lead to a vast saving in this branch of their management. Possibly a State board of rating and adjustment would solve this problem, cut off the expense entirely, guarantee fair rating and adjustment, remove all question of unfair dealing with the rate and loss, make insurance more popular and cheaper.

The greed of agents for large commissions, gave rise to insurance beyond value. The insurer found after a fire that he had paid premiums on a large amount of insurance, but that he had received but a small proportion of it even in the case of total destruction. In Wisconsin, the remedy applied was the valued policy law which provides as follows: "Whenever any policy of insurance shall be written to insure real property and the property insured shall be wholly destroyed, without criminal fault on the part of the insured or his assigns, the amount of the insurance written in such policy shall be taken conclusively to be the true value of the property when insured and the true amount of loss and measure of damages when destroyed."

It is a maxim in fire insurance that the honest insurer must and actually does pay toward the losses caused by incendiarism. It is claimed that the latter occasions a large percentage of the losses which is undoubtedly true if official reports can be relied upon. There is no provision on the statute books of Wisconsin by which the cause of fires are officially investigated. Some local provisions in some of the cities, the watchfulness of the companies' agents alone stand guard to detect the frauds thus committed. While this law protects the honest insurer, is it not on the other hand a constant menace to the companies? It certainly

does not encourage that carefulness nor preservative effort so essential to the prevention of fire. The knowledge of the certain payment of the full amount of the insurance in case of total destruction is not calculated to foster even common and ordinary care but rather indifference on the part of the insured. It is difficult to prove criminal intent. That is equivalent to proof of arson, and that every judge and jurist knows is the most elusive crime on the statute book. Passivity, carelessness, in most cases equal in result to actual intentional burning, does not come within the meaning of such a statute. The law, I am convinced, is unjust, and should be repealed. Its protective features are entirely overbalanced by its viciousness in encouraging that condition of affairs which morally, if not legally, amounts to incendiarism. Insurance is and should constantly be indemnity pure and simple. Actual loss only should be compensated. If there has been over-insurance, it is in almost every case as much the consequence of fraudulent speculation on the part of the insurer as the unscrupulousness of the insurance agent. As a solution of this matter I would suggest in case of a total destruction, the payment under any policy of the actual loss, *i. e.*, the value of the property destroyed, to be determined by adjustment, arbitration or action at law,

not to exceed the face of the policy. Should the amount awarded be less than the face of the policy the proportionate amount of the premium actually paid on the excess of insurance to be refunded with interest on every payment from the time it was made to the time of the loss. This would wipe out the speculative feature, cure over-insurance, operate strongly against incendiarism, and cause the exercise of a higher degree of care, and would also compel every fire insurance company to pay the actual loss.

While it may be possible that many of the errors and defects existing, a few of which I have endeavored to mention, may be remedied by State legislation, I am much inclined to the conviction that the subject of insurance could be most effectually regulated by national supervision. The importance of this matter has not as yet come to be realized by our national law-makers. Other pressing questions of national policy have crowded these vast interests to the rear. The money question, the recent war with Spain and the resulting problems of surpassing national importance will continue to engage the time of our officials and representatives. But this subject should be agitated continuously, its great value to the citizens of our country made known so that, when in the course of time an opportunity for its consideration arrives,

it may be thoroughly understood to the end that all of our people may enjoy the blessings of a just and enlightened national insurance code.

THE POSSIBILITIES OF NATIONAL SUPERVISION.

JOHN A. FINCH :

FIFTY years ago the aggregate amount of outstanding insurance was not one per cent. of the amount now outstanding. The idea was conceived nearly fifty years ago that the State should exercise supervision over insurance companies unlike that applied to any other business. It became popular after its possibilities came to be understood, and is now as firmly fixed in the legislation of the States as is any other legislative subject.

Supervision of insurance companies has come to stay. If the question were original I am free to say I would not favor it in any of its essentials, beyond a compulsory showing of the condition of the companies, to be sworn to by the officers under pains and penalties of perjury. If such supervision had for its sole object the protection of policy-

holders, and it was still thought essential to have some novel law to make insurance companies safe, I would suggest that if three of the chief officers were required to personally take a detailed statement of the condition of their company to each State where they intend doing business, and there make oath to the correctness of the statement, I would have greater faith in a company than is warranted under the present system. The certainty of indictment in Wisconsin of the officers making oath to a false statement as to the condition of their company and extradition there for trial for perjury, would be quite enough to make them careful to make their statements speak the truth. But such a suggestion is fantastical, though it can find its parallel in the legislation of the States here and there found in their statute books.

Let this be said for supervision as it has been exercised, and in view of its results, considering the extraordinary powers given to heads of insurance departments: It has been far below its possibilities in the way of making supervision burdensome. Supervision is by no means a snare and delusion, and the supervisors have been moderate, and have carefully endeavored to discharge their duties for the interests of the State as announced in the legislation creating their offices. They have been and are honest, though not always wise. The

fact that a very few, be it said, of these officials have been derelict, should not be considered in an estimate of the mass. Be it said for them that they are administrative officers whose duty it is to enforce certain legislation of their States. Criticism of the legislation should not be allowed to necessarily include criticism of the supervisors.

At the session of the French Academy in 1856, M. De Broglie said: "Whatever opinion may be held about the natural and political character of the Eighteenth Brumaire, that event was a piece of good fortune to France. Everything relating to it may be exaggerated save the good service it rendered."

In a qualified way this may be said of State supervision of insurance companies. While it has been burdensome and expensive to an almost intolerable degree, and in sporadic cases exasperating, yet there have grown up under it the strongest insurance corporations in the world. American insurance companies, and particularly life insurance companies, command confidence throughout the civilized world. Who can say that this has not become possible because of supervision? It has prevented or throttled many a sham, though it has not always been alert enough to detect them all.

The forty-five States have nearly all insurance departments, or a department with similar powers as

an adjunct to some other department of State government. Each State has its own schedule of taxes, fees, fines, penalties, obligations and prohibitions, and a retaliatory or reciprocal provision, enabling it to meet the highest charges any other State may require of companies of other States. A compilation of these various provisions, as originally enacted, and as keyed up under strict application of retaliatory laws, would be a curious presentation. The retaliatory law has never been enforced in any State to its utmost possibilities. It never will be.

Of all powers granted to the heads of insurance departments, the visitorial power is most frequently under criticism. The executives of a company who have nothing to fear from the extremist application of the visitorial power, save the intolerable annoyance that would follow, dread and distrust supervision. The executives of a company who are not so buttressed, who have reason to fear the result of an application of the visitorial power, dread it as an obstruction.

Be supervision good or bad, in theory or practice, there is certainly no necessity for its frequency. There was never such an illustration of "damnable iteration."

It may be fairly stated that there is not a manager of an insurance company, no matter what its character, or policy-holder who understands how

the cost of insurance is affected by such operations, who does not ardently hope for a change in the system which prevails. If one department could be created by Congress with all of the necessary powers now exercised by the forty-five States, it would be an immense saving to the policy-holders and an additional guard for the solvency of the companies. That the managers of the companies could better perform their duties as managers when under supervision of but one department, rather than under the supervision of forty-five departments, needs no argument.

The primary proposition of supervision and of all insurance legislation was originally in the supposed interest of the policy-holders. The effort was to determine if the company was solvent by statutory tests. So many things have been added to this intention that supervision is now given a seat alongside of the executives of the companies. It wants to know, and the thirst for information is never satisfied. Just what Prussia required of our life insurance companies that they were unwilling to do is not definitely known outside of the offices of the companies affected. In time we will possibly have the Prussian idea and it will go hard, but we will better the example. The requirement of the head of one of the insurance departments for the statement of the salaries re-

ceived by the officers of each of the insurance companies, was met by a general objection. It has seemed to me that such a requirement was in exact accord with, or at least not worse in principle than many other requirements that are uncomplainingly complied with. What interest an official or a policy-holder in a stock company paying no dividends to policy-holders can have in the amount of salaries paid, is not clear. There is a semblance of a right to make this demand in many of the queries of the modern blanks.

The primary and ostensible purpose of the creation of the insurance departments of the States was, as stated, for the protection of the policy-holders. In fact, and herein lies the chief reason of the tenacity with which the States will hold out for the present system, supervision is but a device for taxation. Millions are collected every year under this machinery and but a small part of the sum collected has any relation to any test of solvency of the companies. The collections are for licenses to agents, for other service to the companies, and by way of charge on the premium receipts. The average of the collections of all the States is in excess of two per cent. of the gross receipts of the companies. A very little figuring will show how large a fund is taken from the companies by the States.

There are forty-five States in this Union of States. In every one of these States there is legislation in more or less stringent terms, the purpose of which is to so supervise the regular "Old Line" companies as to enable policy-holders to feel secure. The contracts of the orders and associations are rarely subjected to legislative guards. Despite this legislation, there have been failures, more or less disastrous to policy-holders, in all kinds of insurance companies and of all kinds of associations. The companies that were required to provide a reserve that have failed, failed because of gross dishonesty or because of incompetency, that is even worse, in the management. The orders and associations that were not required to maintain a reserve that have failed, have failed because of inherent defect in the system, hastened in cases by incompetency and dishonesty.

The State cannot provide a law that will make managers of insurance companies honest, nor can it make a law to stay the advancing mortality of advancing age, or lessen the law of averages applied to like conditions.

Over each of these insurance departments there is an officer who is given powers so loosely defined, or so vaguely understood, that the incumbent in cases claims to have, and to a degree exercises, an authority more nearly approaching that known in

the countries with no law but the will of the ruler than is approached anywhere else in the law-governed world.

Primarily and theoretically such an officer must be under mandate to admit no company to his State which cannot be shown by statutory tests to be solvent, and by the same tests he can refuse admission to no company unless restrained by direct enactment or by some ingenious application of the far-reaching retaliatory law.

The form of contract (except where there has been statutory interference) is for the company and the policy-holders. The liability of the company in case of rejected claim under a policy is for the courts to decide. When the law as to taxation or any obligation is not clear beyond controversy, the courts are open to hear and determine what the right may be. Such would be the rule in all other departments as affecting all other classes of corporations; but, by an interpretation, not exclusively modern, as has been assumed, the official in charge of the insurance department has or assumes to have sole discretion and final decision upon such matters in many of the States.

In proof we have—but it is needless to say in this presence and to this audience what we have. Suffice it to suggest that companies are ousted for not paying disputed claims; they are ousted for

not paying taxes which, by previous interpretation, were not held to be due; they are ousted or threatened with ouster for alleged sins of omission and commission without number. The very air has been burdened with report of clashes between companies and departments as to construction of the insurance laws.

Not only have such powers been claimed and exercised, but by authority granted by statute, companies are subject to examination by any official or his deputy of any one of the forty-five States, under penalty of expulsion for refusal to submit at the will of the officer, and this power has been many times in the past, as well as in the present, exercised when there seemed no possible ground to fear the company it was exercised upon was insolvent.

The head of an insurance department is the only official to whom is granted this power of visitation in such unlimited view. The power of visitation has been revived in the legislation of the States affecting insurance companies, and given a scope never conceived of in the monarchies where it originated centuries ago.

The situation of the insurance companies as fixed by the legislation of the country is about as unsatisfactory as it could well be.

Here, then, is the situation. Forty-five States

having forty-five insurance codes that vary in value and viciousness with the wisdom and ignorance that framed them. From the standpoint of the insurance companies they are an unmixed good and a mixed evil.

There is throughout the country a vast and increasing army of discontents with life insurance made up of the discontinued policy-holders. The public has slight knowledge of the legislative burdens thus resting on the companies, and this public, which is in close touch with and made up in large number of the malcontents, looks smilingly on at such a situation, and the persistent policy-holders foot the enormous bills.

Shall this situation go on forever? An affirmative answer could come from the despairing pessimist who can see no hope ahead. A negative answer could come from the perspiring optimist, who thinks he can see hope ahead, but can not give much reason for his faith.

State supervision is not satisfactory. The insurance legislation of the country is not satisfactory. The whole system should be fairly put upon trial before the country with an intelligent jury as arbiter. The country must come to see that there are not two parties with conflicting interests that are affected by legislation. The insurance companies are the policy-holders of the companies—no

one else is interested. What there is in legislation affecting the companies that is harmful or helpful to the companies is harmful or helpful to the policy-holders, and to them only. They are the companies. They foot the bills, and in its last analysis State supervision, as we have it, is most objectionable because it is expensive to the policy-holders.

The personal annoyance the managers of the companies suffer is compensated for it in their salaries. These and all bills of whatever sort the policy-holders pay.

Supervision by State, or by some authority, has come to stay. It is deepening its hold on our legislation every year. The present question is, "Who shall exercise it?" Shall forty-five States do what could better be done by one? Can Congress create a department that will relieve the situation? In other words, what are the possibilities of National Supervision?

From the moment I accepted the invitation to present a paper upon this subject, I have given as much attention to the question, looking at it purely as a legal question, as I could. For six months it has been constantly in my mind. I have again read the expressions of the Supreme Court of the United States that bear upon the powers of Congress, and the powers of the States that would

be invoked or affected by the creation of a National Bureau.

I have come to the conclusion that under these decisions the power of the States is supreme, and that a corporation outside of the State of its incorporation, and particularly if it happen to be an insurance company, is almost in the condition of Dred Scott after the Supreme Court of the United States had fixed his status, as given in the popular summary, "A negro has no rights that a white man is bound to respect."

It is told of Wisconsin's great Senator, Carpenter, who was a lawyer upon the highest test of that exacting profession, that he was given a large fee for an opinion as to the constitutionality of a law which most seriously affected a great business interest. It was desired that the law should be held to be unconstitutional. It was expected that he would be able to secure an opinion from a great court declaring that the law was not constitutional. He labored many weeks on the case, and in the end, after a thorough examination of the kind such as his matchless mind was capable of, he wrote sententiously to his expectant client: "The law is constitutional; you can not overcome it."

During my examination of the question presented, I have been many times upon the point of disposing of it about as summarily, by saying,

“There is no possibility for State supervision ;” but I am not quite ready to so conclude. Most certainly, under the decisions of the Supreme Court of the United States and of the courts of the various States that have spoken, there is no relief possible without legislation, and possibly not without a constitutional amendment.

This decision is arrived at upon as careful a review as I am capable of giving of the decisions of the Supreme Court of the United States, which must be conclusive upon the subject.

It has seemed to me, and I say it with diffidence, that there is a possible flaw or vice running through all of these decisions. They are pronounced without consideration of the fact that the conditions under which the constitution was created have changed. If immediately upon the adoption of the constitution the court had been required to pass upon all of the cases from *Paul vs. Virginia* to *Hooper vs. California*, the decisions would have been in harmony with the then existing conditions.

In one of his great arguments before the Supreme Court of the United States, Webster said the constitution must be read and interpreted in the light of advancing events.

This view of Mr. Webster seemed to find expression in the opinion of the Supreme Court in *Pensacola Tel. Co. vs. Western Union Tel. Co.* (6 Otto,

1): "The powers of Congress thus granted are not confined to the instrumentalities of commerce, or the postal service known or used when the constitution was adopted, but they keep pace with the progress of the country, and adapt themselves to the new developments of time and circumstances. They extend from the horse with its rider to the stage-coach, from the sailing vessel to the steamboat, from the coach and the steamboat to the railroad, and from the railroad to the telegraph, as these new agencies are successively brought into use to meet the demands of increasing population and wealth. They were intended for the government of the business to which they relate at all times and under all circumstances. As they were entrusted to the general government for the good of the nation, it is not only the right, but the duty of Congress to see to it that intercourse among the States and the transmission of intelligence are not obstructed or unnecessarily encumbered by State legislation."

But I doubt if the Court, without an act of Congress, will admit that this expression applies to the insurance business.

All the cases in which the character of the business of insurance has been considered by the Supreme Court of the United States, whether as commerce or not, from *Paul vs. Virginia*, 75 U. S.,

168, to *Hooper vs. California*, 154 U. S., 648, have distinctly held that insurance is not commerce, and, therefore, not within the protection of the Federal Constitution. This is as firmly established as anything that has ever been before the United States Supreme Court.

A review of the decisions of the Supreme Court of the United States upon the extent to which the States may regulate commerce is not encouraging. That Court has gone from point to point, often retracing its steps, and again varying so far from earlier standards that one might wonder if there is anything in commerce that may not be relieved from federal protection and turned over wholly to the regulation of the States by act of Congress.

A rule may be deduced from the later expression of the Court that Congress may (*vide* opinion in construing the Wilson Bill, which practically removed intoxicating liquors from the protection given to other articles of commerce, *in re Rahrer*, 140 U. S., 545), by an enactment relegate any particular article of commerce wholly to State regulation. A bill was passed by the lower house and sent to the Senate so affecting oleomargarine. Under the Rahrer opinion this will let this product enter a State only at the will of the State, and upon such terms as may be imposed.

The situation may be thus summarized: With-

out legislation by Congress all commerce must be free and untrammelled, but when Congress so declares as to any particular article, this freedom ceases. Indeed, the Court says :

“When Congress acted at all the result of its action must be to operate as a restraint upon that perfect freedom which its silence insures. Congress has now spoken, and declared that imported liquors or liquids shall, upon arrival in a State, fall within the category of domestic articles of a similar nature. * * * Congress did not use terms of permission to the State to act, but simply removed an impediment to the enforcement of the State laws in respect to imported packages in their original condition, created by the absence of a specific utterance on its part. It imparted no power to the State not then possessed, but allowed imported property to fall at once, upon arrival, within the local jurisdiction.”

That is to say (and it seems a surprising thing to say), that Congress may declare the Constitution of the United States inoperative in so far as that sacred instrument protects commerce between the States. All State laws that were confessedly regulations of commerce upon subjects national in their character were inoperative and void under the Constitution as construed by the Court, until Congress should say that any article of commerce

should be relieved from the constitutional protection.

It has been said that "Speech is silver, but silence is golden." Surely here is an illustration where silence is golden. It cannot hardly be said that this sort of "speech" is silver. "Speech" of this sort would seem to be of a far more debased metal.

There are possibly crumbs of comfort for those who ardently desire National Supervision of insurance companies in reflecting on this status. If Congress can say that an article confessedly within the protection of the commerce section of the Constitution shall no longer have such protection, it may be said by way of deduction or corollary that Congress may do the converse—may declare an article or an act to be within the protection of the commerce section, which the Supreme Court of the United States has said was not within that protection.

I have thought that possibly the vice of the decision in the Dred Scott Case may underlie these decisions, or, at least, many of them, upon the commerce clause of the constitution. There is no more learned decision nor one more impregnable from its premises than that given by the Supreme Court of the United States in the Dred Scott Case. The summary of the case, as understood by the

country, was that a negro had no rights which the white man was bound to respect. The trouble of the decision was that it failed to interpret the constitution by any light not burning when the constitution was adopted. A paper written by a tallow dip need not be restricted to such a light when those for whom it was written come to read it. The constitution was adopted "to form a more perfect union" between the States. It could hardly be said, or accepted if said, that this meant that it was "to form a more perfect union" under exactly the conditions in the social and business world then prevailing. Under new conditions in the social and business world a more perfect union between the States could only exist by a larger and freer interpretation of the constitution than would have been required when it was adopted. The only fault in Chief Justice Taney's otherwise admirable opinion is that he says the constitution must be interpreted by the conditions existing when it was adopted. That fault led to a logical conclusion. The question presented in effect was this: Is a negro a human being? If he were human he was within the decisive expression of the Declaration of Independence that all men are created equal. The conscience of the North was awakened and found expression. The South, fairly astounded at the expressions of the North,

saw that a union between the States holding views antagonistic to the spirit of the Dred Scott opinion could not last, and submitted the question and all questions, lateral and collateral, direct and corollary, to the arbitrament of the sword. Slavery could not exist if the decision in the Dred Scott Case was not the law of the land. The North refused to believe that it was the law of the land. In the contest that followed the sword prevailed, and the Dred Scott Case was overruled. It was not overruled by the Thirteenth, Fourteenth and Fifteenth Amendments. They were simply an expression recording of the opinion of the country. Whatever the framers of the constitution thought of slavery was of no matter at the end of the Civil War. That militant period decided that it did not mean that any being should be free from the absolute protection of the law. The blood shed on many a field and the solemn end at Appomattox was conclusive on the final issue in the forum of the conscience of the nation. Judge Taney is condemned for his opinion only in the minds of the ignorant and the prejudiced. His argument and his conclusions are impregnable if his premises (which might be summarized to be that there is no higher law than that whatever is right) were accepted. He said the constitution must be interpreted by the light of conditions existing when it

was adopted. By this all change in the public mind and all changes made imperative by changed conditions must be disregarded.

If ever a Supreme Court of the United States should sit which will fully accept Webster's view as to the proper construction of the constitution, it is possible that the vast interests made safe by the contracts of the insurance companies may be held to be within the protection of the present constitution. If this may not come to pass it will require a constitutional amendment before there is any possibility of National Supervision.

I would welcome an effort that would test the right of Congress to enact a law creating a bureau under one of the departments, that would so change the present system of having forty-five bureaus doing, or attempting to do, what one efficient bureau could better do. Such a bureau could only affect companies doing interstate business. It would not affect the States in their regulation and supervision of local companies. Such a bureau would be a vast saving to the policyholders, and should afford them a greater protection than they now have. Would such a law be constitutional? Upon this the Supreme Court would have to pass. The educational effect of the passage of such a law, even if it be declared unconstitutional, would be very valuable. The mere

effort to procure the passage of such a law would be educational. If the people and policy-holders shall ever come to see that they are suffering vast and needless expense by reason of present legislation, supposedly in their interest, there would be hope for a change in our legislation by congressional action, by modification of State statutes affecting companies, or by the creation of a public sentiment that would be as effective as legislation to remove many of the existing evils so loudly complained of. There is more hope now for fair legislation than at any time in the past. The liberalizing of the life insurance policy contract has vastly decreased litigation, and there is without question a better feeling now towards the life insurance companies in the public at large than has ever before been known. Occasionally, however, there is presented a case in the Courts that offends the idea of justice. Such a case in the hands of a legislator smarting under an injustice some widow has suffered, will do more harm than is easily computed, or may be easily averted. Every lawyer having a practice in this class of cases can cite an illustration. Such an illustration should not be permitted. Every dollar paid to a life insurance company should purchase a dollar's worth of insurance. No shrewd construction of a contract that would deprive a policy-holder of a

right once paid for, should be indulged in. A company should be as sedulous to protect the rights of its policy-holders as it is eager to induce them to assume that relation. I suggest this, in passing, as one way to bring about a better feeling in the legislative and judicial mind toward life insurance companies.

The effort to free Dred Scott failed, but it was the beginning of a movement that resulted in the freedom of all slaves. An effort to establish a National Bureau for the regulation of interstate insurance may fail at the beginning. In the effort and failure the insuring public may come to understand the situation, and in the end confessedly cumbrous and expensive systems will be so far modified that relief will come that will go far to alleviate the situation.

In the presentation of this paper I submitted the following query blank to every Insurance Commissioner or Superintendent, and to every like ex-official for the last twenty years whose address I could learn :

Please answer as fully as you can conveniently the following inquiries :

1. During what period were you in charge of the Insurance Department of your State?

2. Supposing a law creating a National Bureau for Insurance Supervision to be constitutional, do you favor such a law ?

3. What advantage would such a Bureau be, in your opinion, to policy-holders, and what to the companies ?

4. Can you give an estimate of the saving to the companies, that is to their policy-holders, in matter (1) of fees to officials, and (2) of taxes to the State, should a National Bureau assume to do the work now done by the Insurance Department of your State ?

5. What is the average annual expense, in your State, for the supervision of insurance companies ?

6. If you have any definite views on the subject of National Supervision, as to its advisability or desirability on any account, you will confer a favor if you will give expression on the subject.

The following officials favor National Supervision :

William A. Fricke.....	Wisconsin.
C. C. Parks.....	Colorado.
L. C. Campbell.....	South Dakota.

The following oppose National Supervision :

Walter S. White	Alabama.
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Clay Sloan.....	Arkansas.
F. Albert Kurtz	Maryland.
Milo D. Campbell.....	Michigan.
Elmer H. Dearth.....	Minnesota.
Ed. T. Orear.....	Missouri.
John F. Cornell.....	Nebraska.
F. B. Fancher.....	North Dakota.
C. W. Brownell.....	Vermont.
C. G. Heifner	Washington.
L. M. LaFollette.....	West Virginia.

The following are in doubt or express no opinion :

Clay Sloan	Arkansas.
O. R. Fyler.....	Connecticut.
A. C. Daily.....	Indiana.
I. W. Carr.....	Maine.
Fred'k L. Cutting.....	Massachusetts.
John C. Linehan	New Hampshire.
George Wurts.....	New Jersey.
Wm. Bettle.....	“ “
Louis F. Payn	New York.
Cyrus Thompson.....	North Carolina.
W. S. Matthews.....	Ohio.
A. C. Landers.....	Rhode Island.
H. R. Kincaid	Oregon.
James H. Lambert.....	Pennsylvania.
Albert C. Landers.....	Rhode Island.
Morton Marye.....	Virginia.

The following ex-officials favor National Supervision :

A. W. Files.....Arkansas.
 D. W. Kinksley.....Colorado.
 Geo. B. Luper.....Pennsylvania.
 James C. Collins.....Rhode Island.

The following ex-officials do not favor National Supervision :

Louis B. Schwanbeck.....Colorado.
 Albert W. Paine.....Maine.
 S. H. Rhodes.....Massachusetts.
 C. P. Ellerbe.....Missouri.

The officials and ex-officials of other States did not respond.

The following are some of the answers received :

Louis B. Schwanbeck, who was in charge of the Colorado Department during the years 1889 and 1890, answers the sixth query as follows :

“I am in favor of uniform laws by all the States and Territories and think it can be accomplished, but a national law and bureau must ultimately become a machine in favor of a few large corporations and drive smaller concerns to the wall.

“I am absolutely opposed to the present mode of examinations, as has been practiced by a few Western Commissioners upon their attempts to harass Eastern concerns. I am a thorough West-

erner, but do not approve of such methods. The New York law on examinations is good and should be adopted throughout the land.”

C. C. Parks, Commissioner of Colorado Insurance Department from 1895 to 1897, says :

“All kinds of insurance, fire, life, etc., are taken by our most frugal citizens. They should not be required to pay an unjust proportion of the States’ and Nation’s expenses.”

Albert W. Paine, the first Commissioner of the State of Maine, being appointed in 1868, expresses himself as follows :

“I was appointed Bank and Insurance Examiner of this State in March 1868, under a statute enacted on the 7th of that month, the existence of which was not then known to me. That was the first law ever passed in this State on the general subject of insurance, and was very defectively drawn. Having thus received the appointment I concluded to accept it and provide for the wants by originating a statute covering the whole subject. The leisure hours of the ensuing year were largely devoted to the work, with the result of the enactment of a statute creating the Insurance Department, with provisions for its government, which went into force on July 1, 1870. Having been appointed Commissioner, the following three years were largely devoted to the work of organization

and government, when my successor found all things ready for his use.

“During the first year of my administration the Hon. George W. Miller, then Insurance Commissioner of New York, originated the idea of a National Insurance Convention to regulate the business of insurance throughout the Union and adopt uniform rules for its government. At his invitation I readily entered into the work with him, and at our first meeting, on the 24th day of May, 1871, I had the honor of being appointed presiding officer of the convention to effect its organization. The work which, as a convention, was done at that and the next session for the promotion of the business of insurance throughout the whole country can not be fully appreciated except by those who at that time had a knowledge and experience of insurance companies and their mode of operation. The quarter of a century which has since elapsed bears pleasing evidence of the great work which was performed, the annual reports of the different Insurance Departments of the several States of the Union being in themselves witnesses thereto. The rules and regulations then adopted are still found everywhere pregnant on their manifold pages in all the States.

“The facts and experience thus presented afford to my mind a conclusive answer to the questions

submitted in your circular as to the establishing of a National Bureau of Government Insurance Supervision. My answer is most emphatically in the negative, and that too for various reasons. In the first place, I cannot see in our National Constitution any authority for Congress to assume any such work. It cannot be derived from the provision which gives Congress authority to enact laws regulating interstate commerce and none other provision, as it seems to me, gives any such power as that now suggested. And besides, Congress, as a general rule, is not composed of members having any particular knowledge of insurance matters, and hence as a body cannot be rationally selected to make rules or exercise authority to govern the subject. On the contrary, the insurance convention is composed of members every one of whom is naturally educated to the work. Better by far to let the whole subject remain as it is, for the aggregate meeting of the different Insurance Commissioners, or their substitutes, to provide rules for the government and regulation of the business as has been the case for the quarter of a century since they began. The harmony which my own observation has convinced me has uniformly prevailed at the annual meetings, speaks loudly in favor of continuing the convention as it has thus far prevailed, its decisions having been uniformly en-

forced without any conflict of sentiment or action either among the members or by the public. Its success in the past may be relied upon as an assurance for the future. Let the present well-enough alone—let things stay as they are, free from all congressional or other interference.”

“I write this on my 86th birthday and in my 64th year of continuous practice at the bar, and that too, while subject to interruption by callers on professional business at my office desk, upon which I am now exercising my pen.

A. W. P.”

Aug. 16, 1898.

S. H. Rhodes, Commissioner of Massachusetts from 1874 to 1879, says :

“So long as insurance companies are created by State legislation having charters subject to alteration, amendment or repeal, and subject also to all laws which are or may hereafter be in force, relating to such corporations, I think National Supervision is impracticable.”

Milo D. Campbell, Commissioner for Michigan, says :

“While I feel there is necessity for federal laws, I do not believe there is any more necessity for federal supervision to supersede State supervision, than for national railroad supervision to supersede State supervision.”

Elmer H. Dearth, Commissioner for Minnesota, does not believe that National Supervision should supersede State Supervision ; that even though a National Bureau of Insurance was established, the States would not relinquish their right to supervise insurance companies within their respective borders and to require payment of licenses, taxes, etc.

Ed. T. Orear, Superintendent for Missouri, for answer to the sixth query, sends copy of open letter to the editor of *The Standard*, dated December 30, 1897, strongly opposing National Supervision.

C. P. Ellerbe, who was Superintendent of the Insurance Department of Missouri from 1889 to 1893, says :

“ I am opposed to National Supervision primarily because I believe it unconstitutional. If constitutional, I do not see how it could benefit either the companies or the policy-holders. In my opinion it would simply impose an additional burden upon insurance companies. Under State Supervision policy-holders are better protected than are depositors in national banks under federal supervision.”

John F. Cornell, Auditor of State of Nebraska, ex-officio Commissioner, says :

“ State supervision and examination of State

banks is much more satisfactory to our people than supervision of national banks. Insurance litigation before judges appointed for life will be worse than before elected judges for the people."

George B. Luper, who was Deputy Insurance Commissioner of Pennsylvania from 1884 to 1890, and Insurance Commissioner from 1890 to 1895, says:

"2. I am heartily in favor of National Supervision, if the same be constitutional.

"3. The advantages to be derived from such a Bureau are too numerous to mention in the space of a letter. Briefly stated, they are: (a) An absolute uniformity of all requirements. (b) Better protection to the policy-holders. (c) Relief from constant changes of Insurance Supervisors. (d) Lessened expense to the companies; hence to the policy-holders.

"4. I believe that National Supervision, if it can be obtained in any way, can be done through a statute drawn something after the form of our National Banking Act, without any attempt whatever to regulate the companies now in existence under charters granted by their respective States. Such a law should provide for the creation of a bureau and for the incorporation and regulation of national insurance corporations, defining their rights, powers, privileges and duties in the United

States. It should also provide for the reincorporation of any insurance company now in existence on the terms and conditions upon which a new company may be organized, and when such company is so reincorporated, it shall have all the rights, powers and privileges, and be subjected to the same restriction as if it were originally incorporated as a national association or company. In this way State Supervision is not touched, and those companies which do not desire to be nationally supervised are not forced into that position.

“On first blush this strikes me as the most feasible plan of National Supervision, and one which, I think, will prove, when worked out in all its details, to be of great value to the insuring public and to the companies.”

James C. Collins, Commissioner for Rhode Island from 1863 to 1868, in answer to the query as to whether he favored National Supervision, says: “Most decidedly I do.”

L. C. Campbell, Commissioner for South Dakota, says that he favors National Supervision for the reasons—

“1. Would have a tendency for better insurance and more satisfaction to policy-holders with better managed companies.

“2. The saving to companies and to policy-holders would be incalculable. I have no informa-

tion which gives the amount that has been taken from insurance companies, by so-called Insurance Commissioners, because of their authority, and in return with but little good to any body other than themselves. It would not necessarily affect the taxes due the State, unless it would add to the receipts of the State because of a less amount assumed by the Commissioner of the State.

“3. I am in favor of National Supervision because of a more efficient service rendered to the companies, with very much less expense, which would lessen the cost of insurance to policy-holders with more confidence in the concern in which they might be holding a policy; a very important item to be considered, and would save the country of many concerns that are not now founded on good business principles. I am, therefore, heartily in favor of National Supervision of Insurance in this country.”

C. W. Brownell, of Vermont, writes that he does not favor National Supervision:

“That is, I do not believe in the centralizing of power at the National Capital when the States should or can manage their own business. * * * The States would need to maintain a department to manage the domestic companies over which the national government could have no control.”

C. G. Heifner, Deputy Commissioner of Insurance for Washington, writes :

“Replying to your favor of the 30th ult. requesting an opinion from this department on the subject of National Supervision of Insurance Companies, I beg to say that theoretically it commends itself to our judgment, and ultimately I hope to be able to support the proposition.

“There is no denying the fact that in the final analysis the assured must pay all losses and expenses incurred by insurance companies. It is equally conclusive, I think, that the proposed system of supervision, if honestly executed, would tend to lower insurance rates by decreasing expenses, while the ratio of losses to premiums would remain substantially the same as if under State supervision. I am considering this proposition on the assumption that it is not to be made a means of raising revenue for the support of the government. Enough should be collected to pay the expense of conducting the Bureau, and no more. At present the total fees and taxes collected by the States from the insurance companies constitute no small item of the total expenses incurred by the companies. If this item is eliminated, then, to that extent, could rates be reduced to the assured ; and competition would force rates down to an equitable basis for both the insurer

and the assured if the companies keep aloof from the unnatural combinations for controlling rates.

“I am opposed to the prevalent and unreasonable tolls imposed by the various States upon insurance companies in the form of annual fees and taxes on premiums. This is a method of indirect taxation collected from that portion of the people whose lives and property are insured. The careless and thoughtless property owner; the worse than useless and unproductive speculator in unimproved lots or acreage entirely escape from furnishing their proportionate share of the government revenues as well as being a hindrance to progress and internal development. The industrious and thoughtful citizen whose efforts are given to the protection of his family and to the erection of buildings and making improvements, and the result of whose labors adds something to the sum total of the wealth of the world, is made to pay an additional tax because he has created something, while the speculator in unimproved land goes free, but whose property is enhanced in value as a result of the other's labors. This method of raising revenue is as unfair, as unjust and as iniquitous as is the present governmental system of taxation very properly called by its beneficiaries a protective tariff. In both cases the man upon whose shoulders the burden falls heaviest believes himself

free. We seem to enjoy being robbed, provided only it be done while our back is turned. It is thus that exorbitant fees and taxes, as well as protective tariffs, became popular among the less intelligent of our people. The duty of collecting taxes from the people and then turning them over to the government to pay its running expenses does not come within the purpose for which insurance companies were organized. The whole system should be abolished root and branch, and by so doing we not only assist in ridding ourselves of an unjust system of taxation, but we will reduce insurance rates as well.

“Again, National Supervision of Insurance appeals to me because of the trouble and expense to which companies are subjected in complying with the conflicting statutes of forty-five States and several Territories. With few exceptions, when an insurance company commences business in one State it soon endeavors to extend its business in every State in the Union. We are one Nation, one people and have one common destiny, and if a company is strong enough and solvent enough to protect the property owner from fire in California, in Texas or in Massachusetts, it is strong enough to protect the property owners in Washington. An exhaustive examination by one competent and honest supervisor should subserve

the interests of all our people. These briefly seem to me to be the chief reasons in support of National Supervision.

“What has been said in support of this proposition may not in the minds of many, outweigh any objections urged against it; nevertheless, at the risk of being considered pessimistic, I shall endeavor to give ‘cause for the faith that is in me.’

“I have ever been a consistent advocate, except in extraordinary cases, of that tenet of the constitution which declares that ‘the powers not delegated to the United States by the constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.’ It must be apparent to all that the tendency of these later years is to the centralization of governmental powers. The moneyed interests, the gigantic trusts and combines have supported this tendency, knowing that governments far removed from the people are less apt to be responsive to their needs or amenable to their demands. Our forefathers, with prophetic vision, evidently foresaw this, and wisely safeguarded the States by vouchsafing to the inhabitants thereof local self-government. I have faith in the intelligence, the integrity and the patriotism of the people, and want the government close to them. National Supervision is undeniably away from the people, and another step toward the

centralization of power, and to that extent I oppose it strongly.

“Another reason, and perhaps the stronger, why I withhold my assent to this proposition at the present time, is my disinclination to lodge in one man such great and far-reaching authority. Instances are not wanting to point out the dangers lurking in the exercise of such vast powers. Men of previous unquestioned integrity, once invested with power, have, yielded to its inherent temptations. Official peculation by a Secretary of War under Grant; the Credit Mobilier scandals; the Star Route frauds, and the pecuniary profits and dereliction of duties by the head of the last administration are unimpeachable proof of either official favoritism or personal dishonesty in the discharge of sacred responsibilities. A man who will use money to purchase votes to secure his own nomination for the presidency of the United States is unfit to be the Secretary of War of a free people in time of peril. So also is a man convicted of bribery by the Senate of his own State unfit to be a Senator of the United States.

“Only a few days ago the government sold \$200,000,000 of United States bonds. When the time came to deliver these bonds to the subscribers therefor, the Secretary of the Treasury, discrediting a co-ordinate branch of the governmental serv-

ice, entered into a contract with the United States Express Company, whose president is a prominent United States Senator, for the delivery of these bonds. The 'New York Financier' brings a strong indictment against the Treasury Department for this transaction, and among other things says :

“ ‘What excuse the government will make for an action which in private business would be deemed suicidal, is not known. If it confesses that it is afraid to trust bonds to the mails, after having for years invited the public to forward valuables in that manner, it stands convicted of fraud. If it still maintains that the mails afford an absolutely safe carriage for money and securities, its position is not more tenable. The incident is one that demands investigation, and Congress will not be doing its duty if it allows the matter to pass unnoticed.’

“The above is quoted to show that even one of those responsible for the enthronement of the moneyed influence in the affairs of government occasionally catches a glimpse of the drift of things. Yet we seem absolutely oblivious to the gravity of such flagrant and criminal offenses on the part of men in high official station. Indeed, such conduct is either condoned by editors, preachers and teachers, or, what is more deplorable, is openly defended by these men, the tenure of

whose positions in most instances depends on their ability and willingness to inculcate error and false theories of government in the minds of our youth.

“More might be said, but I shall not prolong this letter, though evidence scarcely without limit might be adduced of the shameless disregard of the people’s interests by officials charged with solemn obligations who are in touch with the enervating influences of Wall Street. And, notwithstanding the objections here urged, the time may come when the proposition under consideration will command our approval. That time will come, however, only when the standard of official integrity and honor on the part of our federal officials is so high that no citizen shall have just cause to believe that we have wandered from the paths of virtue and rectitude marked out by the fathers of the Republic ; when another Jackson standing like a Colossus and invincible against the combined forces of the money power, shall again sit in the presidential chair. When that time comes I shall give my support, small though it be, to the plan of controlling insurance companies by National Supervision, nor ask for a better.”

L. M. LaFollette, of West Virginia, disapproves of National Supervision. He says :

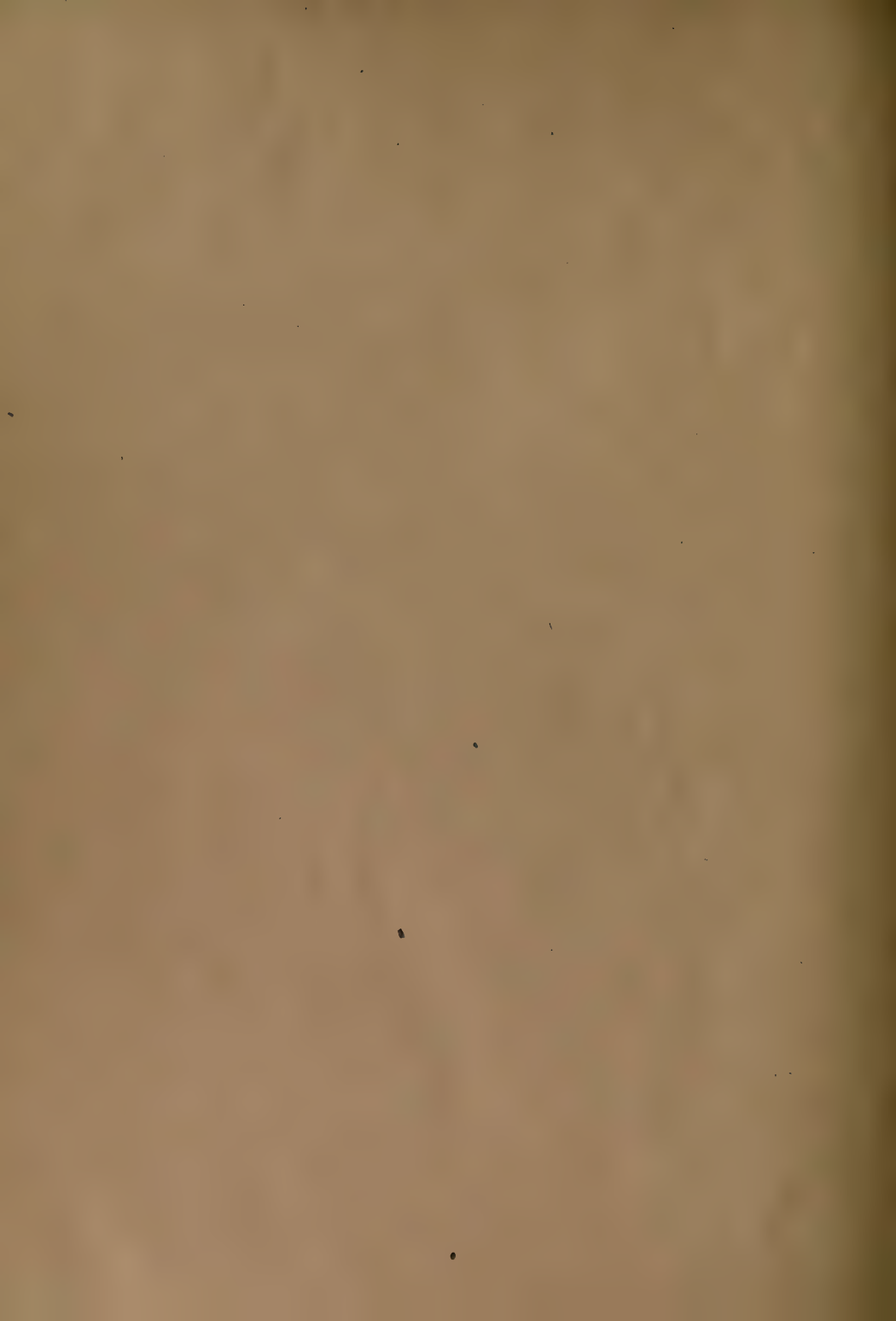
“Your favor of July the 30th was duly received at this office, but for some reason was misplaced,

and for that reason has received no reply. The supervision of insurance in this State is one of six branches of this office. I regard it as very important, and for that reason have given it considerable attention.

“In my judgment, it will be very unwise for Congress to pass any law looking to the National Supervision of Insurance Companies. I do not believe that it can do so under the Constitution.

“Without going into a discussion of the subject, allow me to say that the reasons advanced in its favor are, in my judgment, without weight, and there are many strong arguments against it. The National Government should certainly have nothing to do with matters that can be controlled by the States.”





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